OFFICIAL TRANSCRIPT OF PROCEEDINGS BEFORE THE POSTAL RATE COMMISSION

In the Matter of:	)	
	)	Docket No.: R2006-1
POSTAL RATE AND FEE CHANGES	)	

VOLUME #12

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POSTAL RATE COMMISSION

In the Matter of:)
) Docket No.: R2006-1
POSTAL RATE AND FEE CHANGES)

Suite 200
Postal Rate Commission
901 New York Avenue, N.W.
Washington, D.C.

Volume 12
Friday, August 18, 2006

The above-entitled matter came on for hearing pursuant to notice, at 9:31 a.m.

BEFORE:

HON. GEORGE A. OMAS, CHAIRMAN
HON. DAWN A. TISDALE, VICE-CHAIRMAN
HON. TONY HAMMOND, COMMISSIONER
HON. RUTH Y. GOLDWAY, COMMISSIONER
HON. MARK ACTON, COMMISSIONER

APPEARANCES:

On behalf of United States Postal Service:

ERIC KOETTING, Esquire
KEN HOLLIES, Esquire
United States Postal Service
475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260
(202) 268-2900

APPEARANCES: (Cont'd.)

On behalf of the Office of the Consumer Advocate:

KENNETH RICHARDSON, Esquire
Postal Rate Commission
Office of the Consumer Advocate
901 New York Avenue, N.W., Suite 200
Washington, D.C. 20268
(202) 789-6839

On behalf of Advo, Inc.:

THOMAS W. MCLAUGHLIN, Esquire
Burzio & McLaughlin
Canal Square, Suite 540
1054 31st Street, N.W.
Washington, D.C. 20007-4403
(202) 965-4565

On behalf of Amazon.com, Inc.

WILLIAM J. OLSON, Esquire
William J. Olson, P.C.
8180 Greensboro Drive, Suite 1070
McLean, Virginia 22102-3860
(703) 356-5070

On behalf of American Postal Workers Union:

JENNIFER WOOD, Esquire
O'Donnell, Schwartz & Anderson, P.C.
1300 L Street, N.W., Suite 1200
Washington, D.C. 20005-4126
(202) 898-1707

On behalf of Major Mailers Association:

MICHAEL W. HALL, Esquire
Law Offices of Michael W. Hall
35396 Millville Road
Middleburg, Virginia 20117
(540) 687-3151

APPEARANCES: (Cont'd.)

On behalf of Newspaper Association of America:

WILLIAM B. BAKER, Esquire
Wiley, Rein & Fielding, LLP
1776 K Street, N.W.
Washington, D.C. 20006-2304
(202) 719-7255

On behalf of Valpak Dealers Association, Inc.and Valpak Direct Marketing Systems, Inc.:

WILLIAM J. OLSON, Esquire
William J. Olson, P.C.
8180 Greensboro Drive, Suite 1070
McLean, Virginia 22102-3860
(703) 356-5070

C O N T E N T S

WITNESSES APPEARING:
JOHN P. KELLEY

E X H I B I T S

P R O C E E D I N G S

(9:31 a.m.)

CHAIRMAN OMAS: Good morning. Today we continue hearings to receive the testimony of Postal Service witnesses in support of Docket No. R2006-1, Request for Rate and Fee Changes.

Does anyone have any procedural matter to discuss before we proceed this morning?

(No response.)

CHAIRMAN OMAS: One witness is scheduled to appear today.

Mr. Hollies, would you like to introduce your witness so I can swear him in?

MR. KOETTING: Mr. Koetting will be representing John Kelley, Mr. Chairman.

CHAIRMAN OMAS: Mr. Koetting, I'm sorry.

MR. KOETTING: The Postal Service calls as its next witness John Kelley.

CHAIRMAN OMAS: Mr. Kelley, would you raise your right hand?

Whereupon,

JOHN P. KELLEY

having been duly sworn, was called as a witness and was examined and testified as follows:

CHAIRMAN OMAS: Please be seated.

I apologize for that. I actually had Ms. Portonovo on my statement, and I didn't see her. I saw Mr. Hollies.

You may proceed, Mr. Koetting.

MR. KOETTING: Thank you, Mr. Chairman.

(The document referred to was marked for identification as Exhibit No. USPS-T-30.)

DIRECT EXAMINATION

BY MR. KOETTING:

Q Mr. Kelley, would you please state your full name and title for the record?

A John Kelley, economist.

Q Mr. Kelley, I've just handed you a copy of a document entitled Direct Testimony of John P. Kelly on Behalf of the United States Postal Service, which has been labeled as USPS-T-30. Are you familiar with that document?

A Yes.

Q Was it prepared by you or under your supervision?

A Yes.

Q Did the copy that I handed to you contain the four pages that were revised yesterday?

A Yes.

Q With those revisions, if you were to testify orally today would your testimony be the same?

A Yes, it would.

Q Are there any Category II library references associated with this testimony?

A Yes.

Q And that is USPS-LR-L-67?

A Yes.

Q And that library reference was revised on June 5 of this year?

A Yes.

Q Is it your intent to sponsor that library reference as revised?

A Yes.

MR. KOETTING: With that, Mr. Chairman, the Postal Service requests that the direct testimony of John P. Kelley on behalf of the United States Postal Service labeled USPS-T-30 and the associated library reference, USPS-LR-L-67, be admitted into evidence.

CHAIRMAN OMAS: Is there any objection?

(No response.)

CHAIRMAN OMAS: Hearing none, I will direct counsel to provide the reporter with two copies of the corrected direct testimony of John P. Kelley.

That testimony is received into evidence.

However, as is our practice, it will not be transcribed.

(The document referred to, previously identified as Exhibit No. USPS-T-30, was received in evidence.)

CHAIRMAN OMAS: Mr. Kelley, have you had an opportunity to examine the packet of designated written cross-examination presented to you here this morning?

THE WITNESS: Yes, I have.

CHAIRMAN OMAS: If the questions contained in that packet were asked of you orally today, would your answers be the same as those you previously provided in writing?

THE WITNESS: Yes, they would. There's I guess a couple of issues there.

One, the original packet didn't have two or three of the revised responses that had been filed, so I inserted those into the packet. Then there's two corrections I'd like to make to the packet as well.

The first one is MMA-19, Parts (a) and (b). It's just a typographical error there. There are too many wills, so take out the first "will" in that line. MMA-23, on the third line it should say, "I suspect

that a smaller proportion of stamped letters are delivered" rather than "larger" so I'm substituting the word "smaller" for "larger".

CHAIRMAN OMAS: Thank you.

Counsel would you please provide the reporter with two copies of the corrected designated written cross-examination of Witness Kelley?

I direct that they be received into evidence and transcribed.

(The document referred to was marked for identification as Exhibit No. USPS-T-30 and was received in evidence.)

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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

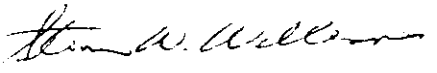
Postal Rate and Fee Changes, 2006 Docket No. R2006-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF UNITED STATES POSTAL SERVICE
WITNESS JOHN P. KELLEY
(USPS-T-30)

Party	Interrogatories
Advo, Inc.	ADVO/USPS-T30-1 VP/USPS-T30-11, 32 VP/USPS-T44-27-28 redirected to T30
Amazon.com, Inc.	AMZ/USPS-T30-1
American Bankers Association and National Association of Presort Mailers	ABA-NAPM/USPS-T22-2b redirected to T30
American Postal Workers Union, AFL-CIO	APWU/USPS-T30-2-3, 5
Greeting Card Association	GCA/USPS-T30-1-2
Major Mailers Association	MMA/USPS-T30-1-8, 10-11, 13-23, 25-28
Newspaper Association of America	NAA/USPS-T30-1-10 PRC/USPS-POIR No.8 - Q13, 14 redirected to T30 VP/USPS-T30-2, 3a, 4-7, 8b, 9-11, 13, 16-17, 21-27, 31 VP/USPS-T44-27-29 redirected to T30

Party	Interrogatories
Office of the Consumer Advocate	MMA/USPS-T30-21-22, 25, 27 PSA/USPS-T30-1 VP/USPS-T30-1, 16-18, 21-22 VP/USPS-T23-1c redirected to T30
Postal Rate Commission	ADVO/USPS-T30-1 PRC/USPS-POIR No.3 - Q1 - 3, POIR No.5 - Q12b, 12d, 13, 14, 15, 16a, 16c, 17c, 17d, 17e, 17f, 18, 19, POIR No.8 - Q13, 14 redirected to T30
Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association Inc.	VP/USPS-T30-1-2, 3a, 4-7, 8b, 9-19, 21-32 VP/USPS-T23-1c redirected to T30 VP/USPS-T44-27-29 redirected to T30

Respectfully submitted,



Steven W. Williams
Secretary

INTERROGATORY RESPONSES OF
UNITED STATES POSTAL SERVICE
WITNESS JOHN P. KELLEY (T-30)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory	Designating Parties
ABA-NAPM/USPS-T22-2b redirected to T30	ABA-NAPM
ADVO/USPS-T30-1	Advo, PRC
AMZ/USPS-T30-1	Amazon
APWU/USPS-T30-2	APWU
APWU/USPS-T30-3	APWU
APWU/USPS-T30-5	APWU
GCA/USPS-T30-1	GCA
GCA/USPS-T30-2	GCA
MMA/USPS-T30-1	MMA
MMA/USPS-T30-2	MMA
MMA/USPS-T30-3	MMA
MMA/USPS-T30-4	MMA
MMA/USPS-T30-5	MMA
MMA/USPS-T30-6	MMA
MMA/USPS-T30-7	MMA
MMA/USPS-T30-8	MMA
MMA/USPS-T30-10	MMA
MMA/USPS-T30-11	MMA
MMA/USPS-T30-13	MMA
MMA/USPS-T30-14	MMA
MMA/USPS-T30-15	MMA
MMA/USPS-T30-16	MMA
MMA/USPS-T30-17	MMA
MMA/USPS-T30-18	MMA
MMA/USPS-T30-19	MMA
MMA/USPS-T30-20	MMA
MMA/USPS-T30-21	MMA, OCA
MMA/USPS-T30-22	MMA, OCA
MMA/USPS-T30-23	MMA
MMA/USPS T30-25	MMA, OCA
MMA/USPS-T30-26	MMA
MMA/USPS-T30-27	MMA, OCA

Interrogatory	Designating Parties
MMA/USPS-T30-28	MMA
NAA/USPS-T30-1	NAA
NAA/USPS-T30-2	NAA
NAA/USPS-T30-3	NAA
NAA/USPS-T30-4	NAA
NAA/USPS-T30-5	NAA
NAA/USPS-T30-6	NAA
NAA/USPS-T30-7	NAA
NAA/USPS-T30-8	NAA
NAA/USPS-T30-9	NAA
NAA/USPS-T30-10	NAA
PRC/USPS-POIR No.3 - Q1 redirected to T30	PRC
PRC/USPS-POIR No.3 - Q2 redirected to T30	PRC
PRC/USPS-POIR No.3 - Q3 redirected to T30	PRC
PRC/USPS-POIR No.5 - Q12b redirected to T30	PRC
PRC/USPS-POIR No.5 - Q12d redirected to T30	PRC
PRC/USPS-POIR No.5 - Q13 redirected to T30	PRC
PRC/USPS-POIR No.5 - Q14 redirected to T30	PRC
PRC/USPS-POIR No.5 - Q15 redirected to T30	PRC
PRC/USPS-POIR No.5 - Q16a redirected to T30	PRC
PRC/USPS-POIR No.5 - Q16c redirected to T30	PRC
PRC/USPS-POIR No.5 - Q17c redirected to T30	PRC
PRC/USPS-POIR No.5 - Q17d redirected to T30	PRC
PRC/USPS-POIR No.5 - Q17e redirected to T30	PRC
PRC/USPS-POIR No.5 - Q17f redirected to T30	PRC
PRC/USPS-POIR No.5 - Q18 redirected to T30	PRC
PRC/USPS-POIR No.5 - Q19 redirected to T30	PRC
PRC/USPS-POIR No.8 - Q13 redirected to T30	NAA, PRC
PRC/USPS-POIR No.8 - Q14 redirected to T30	NAA, PRC
PSA/USPS-T30-1	OCA
VP/USPS-T30-1	OCA, Valpak
VP/USPS-T30-2	NAA, Valpak
VP/USPS-T30-3a	NAA, Valpak
VP/USPS-T30-4	NAA, Valpak
VP/USPS-T30-5	NAA, Valpak
VP/USPS-T30-6	NAA, Valpak

Interrogatory	Designating Parties
VP/USPS-T30-7	NAA, Valpak
VP/USPS-T30-8b	NAA, Valpak
VP/USPS-T30-9	NAA, Valpak
VP/USPS-T30-10	NAA, Valpak
VP/USPS-T30-11	Advo, NAA, Valpak
VP/USPS-T30-12	Valpak
VP/USPS-T30-13	NAA, Valpak
VP/USPS-T30-14	Valpak
VP/USPS-T30-15	Valpak
VP/USPS-T30-16	NAA, OCA, Valpak
VP/USPS-T30-17	NAA, OCA, Valpak
VP/USPS-T30-18	OCA, Valpak
VP/USPS-T30-19	Valpak
VP/USPS-T30-21	NAA, OCA, Valpak
VP/USPS-T30-22	NAA, OCA, Valpak
VP/USPS-T30-23	NAA, Valpak
VP/USPS-T30-24	NAA, Valpak
VP/USPS-T30-25	NAA, Valpak
VP/USPS-T30-26	NAA, Valpak
VP/USPS-T30-27	NAA, Valpak
VP/USPS-T30-28	Valpak
VP/USPS-T30-29	Valpak
VP/USPS-T30-30	Valpak
VP/USPS-T30-31	NAA, Valpak
VP/USPS-T30-32	Advo, Valpak
VP/USPS-T23-1c redirected to T30	OCA, Valpak
VP/USPS-T44-27 redirected to T30	Advo, NAA, Valpak
VP/USPS-T44-28 redirected to T30	Advo, NAA, Valpak
VP/USPS-T44-29 redirected to T30	NAA, Valpak

REVISED RESPONSE OF POSTAL SERVICE WITNESS KELLEY TO INTERROGATORIES OF ABA/NAPM, REDIRECTED FROM WITNESS ABDIRAHMAN

ABA-NAPM/USPS-T22-2:

a. Please confirm that the USPS, in determining cost avoidances and setting rates and discounts for workshared FCLM in this case, did not take into consideration any in-office delivery costs avoided by FCLM. If you fail to confirm without qualification, please explain fully and provide supporting analyses and data sufficient to replicate your results.

b. Please provide the in-office delivery costs avoided by workshared FCLM, by automation rate category, in the same format as past cases, using both the USPS and PRC methodologies.

c. Please revise the table set forth in ABA-NAPM/USPS-T22-1 to show the incremental passthroughs that result if the savings in in-office delivery costs are added to the mail processing cost savings already included in the table.

Response

a.,c. Answered by witness Taufique.

b. The first two columns in the table below provide the requested in-office costs in the same format shown in USPS-LR-K-67. They only include 6.1 costs, so they are not all of the in-office costs. The third and fourth colums show all delivery costs (cost segments 6, 7, and 10).

Since neither carrier system records data at the rate category level within automation letters, I do not endorse the unit casing or delivery costs by rate category provided in the table below. An important driver is the proportion of originating volume delivered by city and rural carriers, which is not reflected in the table below. Rather the results in the table below are driven by DPS percentages derived from a theoretical model which we no longer believe to be valid.

In terms of delivery costs, the USPS and PRC versions differ only by the by the different piggyback factors and test year costs utilized by each version.

REVISED RESPONSE OF POSTAL SERVICE WITNESS KELLEY TO INTERROGATORIES OF ABA/NAPM, REDIRECTED FROM WITNESS ABDIRAHMAN

Rate Category	TY Unit 6.1 Costs (USPS)	TY Unit 6.1 Costs (PRC)	TY Unit Delivery Costs (USPS)	TY Unit Delivery Costs (PRC)
Automation Mixed AADC	$0.0101	$0.0101	$0.0426	$0.0428
Automation AADC	$0.0094	$0.0094	$0.0411	$0.0413
Auto 3 Digit Letters	$0.0091	$0.0091	$0.0405	$0.0407
Auto 5-Digit Letters CSBCS/Manual Sites	$0.0186	$0.0185	$0.0604	$0.0606
Auto 5-Digit Letters Other Sites	$0.0078	$0.0078	$0.0377	$0.0379
Auto 5-Digit Letters	$0.0101	$0.0100	$0.0425	$0.0427
Auto CR Letters	$0.0179	$0.0178	$0.0588	$0.0590
Automation (Avg)	$0.0097	$0.0096	$0.0417	$0.0419

REVISED 8/15/06

Response of Postal Service Witness Kelley to Interrogatories Posed by ADVO, Inc

ADVO/USPS-T30-1.
In response to NAA-T30-7(e), you provide disaggregated TY08 delivery costs for all three density levels of ECR flat mail. Please provide the electronic version of the complete set of workpapers used to develop those costs. If not already included in those workpapers, please also disaggregate the delivery costs for ECR letter and parcel mail into the three density levels.

Response

Refer to the attached workbook. It is supposed to be self-contained – not having any external links to other workbooks. The source for the vast majority of the data is USPS-LR-L-67. However, originating and carrier volumes for ECR Basic and ECR High Density mail are not included as part of USPS-LR-L-67, since they were not needed to derive the USPS version of delivery costs. Those volumes come from library references USPS-LR-L-11 (city), USPS-LR-L-12 (rural), and USPS-LR-L-87 (RPW by shape). Each worksheet indicates the various sources of the data in column A at the bottom.

Response of Postal Service Witness Kelley to Interrogatories Posed by Amazon.com, Inc

AMZ/USPS-T30-1.

Please refer to Docket No. R2005-1, USPS-T-14, pages 41-43, where witness Bradley develops separate volume variabilities for large parcels and accountables.

a. Please define the term "large parcel" as it is used in the delivery model, explain what distinguishes large parcels from other (small) parcels, and explain whether large parcels are determined by weight, cube, some other dimension(s), or some combination thereof.

b. What is the unit delivery cost for a large parcel in BY 2005 and TY 2008? If various categories of large parcels (*e.g.*, Bound Printed Matter ("BPM"), Media Mail, Parcel Post, Parcel Select, Priority Mail) have different delivery costs, please provide the unit cost of a large parcel in each category.

c. What is the unit delivery cost of a small parcel in BY 2005 and TY 2008? If various categories of small parcels (*e.g.*, BPM, Media Mail, Parcel Post, Parcel Select, Priority Mail) have different delivery costs, please provide the unit cost of a small parcel in each category.

d. In BY 2005, what percent of BPM consists of large parcels, as defined by and used in witness Bradley's econometric estimate of the parcel/accountable delivery equation?

e. In BY 2005, what percent of Media Mail and Library Mail consists of large parcels, as defined by and used in witness Bradley's econometric estimate of the parcel/accountable delivery equation?

Response

a. Large parcels are distinguished from small parcels based on their dimensions. The specific criterion for distinguishing large parcels from small parcels is located in USPS-LR-K-23 (Docket No. 2005-1) SPL6.03.pdf on page two.

b. The base year volume variable regular delivery time cost per large parcel delivered on city letter routes is 26.81 cents. The corresponding test year unit cost is unavailable.

c. The base year volume variable regular delivery time cost per small parcel delivered on city letter routes is 13.17 cents. The corresponding test year unit cost is unavailable.

d. The table below provides the requested information.

Bound Printed Matter	BY05 CCCS Volume (000)	BY05 CCCS Ratio to Total
Small Parcels	59,790	41.3%
Large Parcels	84,835	58.7%
Total Parcels	144,625	100%

e. The table below provides the requested information.

Media Mail	BY05 CCCS Volume (000)	BY05 CCCS Ratio to Total
Small Parcels	36,161	47.7%
Large Parcels	39,655	52.3%
Total Parcels	75,816	100%

Response of Postal Service Witness Kelley to Interrogatories Posed by American Postal Workers Union, AFL-CIO

APWU/USPS-T30-2
What is the average unit delivery cost in the base year and the test year of letter mail that has been delivery point sequenced?

Response

I was unsure to which rate categories your question referred. The unit costs for letters that pass through DPS processing will vary by rate category. I chose to derive the unit delivery costs for First Class Presort and Standard Regular DPS letters. The results are included in the table below.

Rate Category	DPS %[1]	BY05 Unit Cost (DPS Letter) (Cents)	TY08 Unit Cost (DPS Letter) (Cents)
FC Presort	84.95%	2.864	3.127
Std Regular	81.56%	2.580	2.832

[1] DPS % derived from carrier systems

Response of Postal Service Witness Kelley to Interrogatories Posed by American Postal Workers Union, AFL-CIO

APWU/USPS-T30-3
What is the average unit delivery cost in the base year and in the test year of letter mail that has not been delivery point sequenced?

Response

I was unsure which rate categories your question referred. The unit costs for letters that do not pass through DPS processing will vary by rate category. I chose to derive the unit delivery costs for First Class Presort and Standard Regular Non-DPS letters. The results are included in the table below.

Rate Category	Non-DPS %[1]	BY05 Unit Cost (Non-DPS Letter) (Cents)	TY08 Unit Cost (Non-DPS Letter) (Cents)
FC Presort	15.05%	9.271	10.018
Std Regular	18.44%	7.380	8.069

[1] DPS % derived from carrier systems

Response of Postal Service Witness Kelley to Interrogatories Posed by American Postal Workers Union, AFL-CIO

APWU/USPS-T30-5
Please confirm that all accountable or registered mail would fall in the single piece category.

Response

Not confirmed. Although I am not an expert on mail acceptance or classification, my understanding is that signature confirmation, for example, can be included with bulk rate Package Service pieces. Pieces with Signature Confirmation are considered to be accountables since a customer signature is required for delivery.

My understanding is that registered mail must have prepaid postage at single-piece First Class rates. The specific eligibility requirements for registered mail are contained in the DMM Section 503.2.2.2.

Response of Postal Service Witness John P. Kelley to Interrogatories of the Greeting Card Association

GCA/USPS-T30-1
Please refer to Table 1 in your prefiled testimony. Please explain how you have defined the terms "letter" and "flat" as you use them in developing Test Year unit delivery costs by shape for single-piece First Class Mail.

Response:

For purposes of my testimony, and the library reference I sponsor, USPS-LR-L-67, I do not attempt to define shape. Instead, I generally rely on the shape classification assigned to data by the four statistical systems that provide the inputs I use to derive unit delivery costs. The four systems are the following: 1) In-Office Cost System (IOCS) (witness Czigler – USPS-T-1); 2) City Carrier Cost System (CCCS) (witness Harahush – USPS-T-4); 3) Rural Carrier Cost System (witness Riddle – USPS-T-5); and 4) Origin Revenue Pieces and Weight System (ORPW) (witness Pafford – USPS-T-3). For single-piece First Class Mail, my analysis uses the shape information provided directly from each statistical system without modification. My understanding is that, in general, the basic distinctions between letter-size and flat-size pieces are reflected in the Domestic Mail Manual (updated May 11, 2006) sections 101.1.0 for letter-size mail, and 101.2.0 for flat-size mail.

As defined in the DMM, letter-size mail is 1) not less than 5 inches long, 3.5 inches high, and 0.007 inch thick. and 2) not more than 11.5 inches long, or more than 6.125 inches high, or more than 0.25 inch thick. Flat-size mail is 1) more than 11.5 inches long, or more than 6.125 inches high, or more than 0.25 inch thick, 2) not more than 15 inches long, or more than 12 inches high, or more than 0.75 inch thick, and 3) unwrapped, sleeved, wrapped, or enveloped. If you want more precise information on any variations from the DMM definitions

employed within the different reporting systems, you would need to consult the documentation materials provided with regard to those systems.

Response of Postal Service Witness John P. Kelley to Interrogatories of the Greeting Card Association

GCA/USPS-T30-2

In your analysis of Test Year unit delivery costs by shape, as reflected in Table 1, would a single-piece First-Class letter which (i) weighs one ounce or less, and (ii) is less than 11.5 in. by 6.125 in. by 0.25 in. thick, but (iii) has an aspect ratio less than 1:1.3 or greater than 1:2.5 be counted as a "letter" or as a "flat"? Please explain your answer fully.

Response:

Assuming that by (ii) you mean to describe a piece that does not exceed the upper limits of any of the dimensions within the letter-shape definition, my understanding is that the piece described would be counted as a letter in the four statistical systems (IOCS, CCCS, RCCS, and ORPW) that USPS-LR-L-67 uses to develop unit delivery costs.

RESPONSE OF POSTAL SERVICE WITNESS KELLEY
TO INTERROGATORIES OF MMA

MMA/USPS-T30-1

Please refer to footnote 1 on page 3 of your direct testimony, and Table 1 on page 4, where you show a combined unit delivery cost for First-Class "Automation Letters."

A. Who decided to combine all of the First-Class Automation presort categories into one average unit delivery cost rather than to derive individual unit delivery costs for each presort level?
B. Please provide the exact reason(s) as to why this decision was made.

Response

A and B. Discussions with rate design personnel made clear to me that aggregated First Class Presort letter unit delivery costs, as presented in USPS-LR-L-67, were sufficient for their purposes. As a result, I decided to combine all of the First Class Automation presort categories into one average unit cost.

REVISED RESPONSE OF POSTAL SERVICE WITNESS KELLEY
TO INTERROGATORIES OF MMA

MMA/USPS-T30-2

On page 5 of your testimony you provide an equation that you employ for deriving unit delivery costs.

A. Please confirm that the unit delivery costs you derive are not the volume variable cost to deliver a piece of mail, but are the average volume variable delivery cost per originating piece. If you cannot confirm, please explain.

B. Assuming that you confirm part A, is it possible to derive the unit delivery cost for mail that is actually delivered by rural or city carriers? If not, why not? If so, please provide the volume variable unit cost to deliver a First-Class (1) single piece letter, (2) metered letter, (3) Nonautomation letter, and (4) Automation letter.

C. If you can provide unit delivery costs as requested in part B, please provide the volume variable unit delivery cost for Automation letters presorted to (1) Mixed AADC, (2) AADC, (3) 3-digits and (4) 5-digits. If you cannot do so, please explain.

Response

A. The unit delivery costs in Table 1 are derived by taking the ratio of total test year volume variable costs from cost segments 6, 7, and 10 to the test year originating volume.

B. and C. The requested unit delivery costs per delivered letter by city or rural carriers are provided in the table.

First Class Letters	TY Costs (000)	TY Unit Delivery Costs per (CCCS+RCCS) Piece (Cents)
Single Piece	$2,675,500	12.640
Metered	$995,455	13.008
Non-automation	$70,482	4.586
Automation	$1,906,671	4.650
Mixed AADC	$120,699	4.751
AADC	$101,383	4.589
3 Digits	$914,110	4.516
5 Digits	$731,415	4.744

RESPONSE OF POSTAL SERVICE WITNESS KELLEY
TO INTERROGATORIES OF MMA

MMA/USPS-T30-3

On page 5 of your testimony you discuss your assumption that 10% of DPS letters will not be DPSed and will require some direct labor casing costs.

A. Are these pieces DPSed and then processed manually, or simply processed manually without being DPSed. Please explain.
B. Please explain the basis for your assumption and why you feel the figure of 10% is reasonable. Please provide all documents that you reviewed in connection with use of your 10% assumption.
C. How does the full implementation of PARS affect this assumption?

Response

A. The assumption is that these letters pass through DPS processing and then are cased by the letter carrier.

B. The basis for my assumption is contained on page 5 of my direct testimony and in my response to POIR No. 3, question 2.

C. Intuitively, the full implementation of PARS might reduce the percentage of DPS'd letters that require additional in-office handling by the carriers. My understanding, however, is that the full implementation of PARS would not affect other issues that might require a carrier to case DPS mail, such as vacation holds.

RESPONSE OF POSTAL SERVICE WITNESS KELLEY
TO INTERROGATORIES OF MMA

MMA/USPS-T30-4

In R2005-1, USPS witness Abdirahman stated the following in response to Interrogatory MMA/USPS-T21-46 (B):

> The delivery unit costs are included in the worksharing related savings calculations to reflect the fact that, to varying degrees, different mail categories capture different levels of Delivery Point Sequencing (DPS).

Please state whether or not you agree or disagree with USPS witness Abdirahman's statement. If you disagree with this statement, please explain why you disagree and provide all documents that you reviewed in formulating your position.

Response

I don't know. I am not familiar with the manner in which worksharing related savings are calculated.

RESPONSE OF POSTAL SERVICE WITNESS KELLEY
TO INTERROGATORIES OF MMA

MMA/USPS-T30-5

On page 6 of your testimony you indicate that you derived DPS %s for First-Class Presorted letters from city and rural delivery volumes.

A. Was the information you use to derive DPS %s for First-Class Automation and Nonautomation letters available to you in R2005-1? If so, why did you not incorporate that data in your delivery cost analysis in that case and provide such figures to USPS witness Abdirahman as a basis for reconciling his theoretically derived DPS %s? If this information was not available to you in R2005-1, how did it become available for this case?
B. Please explain specifically how you used total city and rural delivery volumes to derive First-Class Automation and Non-Automation letter DPS %s.

Response

A. Yes, DPS percentages derived from the carrier systems could have been calculated in R2005-1 at the aggregate automation and non-automation levels. However, the estimated percentages were not, and still are not, available at the rate category level within automation and non-automation for Docket R2005-1. For example, neither carrier cost system produced estimates for DPS percentages for First Class Presort Automation 3 digit letters at the base year level for Docket R2005-1 or for the instant docket. The decision to use the estimated DPS percentages from the carrier systems at the automation and non-automation level was made only after it was determined that the test year delivery costs were going to be aggregated to that level.

B. Within First Class Presort, each carrier system records the total volume and DPS volume for non-automation and automation letters. The DPS percentages were derived by taking total DPS delivered volume to total delivered (RCCS + CCCS) volume for non-automation and automation letters separately. The exact

calculations are shown in USPS-LR-L-67 workbook UDCInputs.USPS.xls worksheet DPS% rows 11 and 12.

REVISED RESPONSE OF POSTAL SERVICE WITNESS KELLEY
TO INTERROGATORIES OF MMA

MMA/USPS-T30-6

Please provide the unit and total cost segment delivery costs for First-Class single piece (1) stamped letters, (2) metered mail letters, and (3) "other" letters in the same manner that you did in response to R2005-1 Interrogatory MMA/USPS-T16-6.

Response:

Please refer to the attached Excel workbook.

REVISED 7/12/06

USPS and PRC VERSION
BY05 City Carrier In-Office Costs ($000)

Class Code	Class	Shape Code	Shape	Stamped	Metered	Other	Total
1	1st L&P	1	1Ltr	430,235,575	289,589,928	29,190,530	749,016,033

Adjust to CRA C/S 6.1 1st Single Piece - BY05

	Stamped	Metered	Other	Total
1Ltr	430,236	289,590	29,191	749,016

PRC VERSION

BY05 Costs

	6.1 unit cost	6.1 Costs (000)	6.2 Costs Burdened Office (000s)	6.2 Costs Burdened Street (000s)	7.1 Costs (000)	7.2 Costs (000)	10 Costs (000)	Total piggybacked costs (000)	Permit Volume* (000)	City Carrier Unit Cost	Rural Carrier Unit Cost	Total Unit Cost
Single-Piece Letters Stamped	0.0183	430,236	117,184	20,882	543,957	71,569	136,023	1,652,103	23,460,284	0.0635	0.0069	0.0704
Single-Piece Letters Metered	0.0204	289,590	78,876	12,652	329,564	43,361	82,411	1,047,294	14,213,740	0.0668	0.0069	0.0737
Single-Piece Letters Other	0.0178	29,191	7,951	1,462	38,095	5,012	9,526	114,196	1,643,007	0.0626	0.0069	0.0695
First-Class Single-Piece Letters BY	0.0191	749,016	204,011	34,996	911,616	119,943	227,960	2,813,593	39,317,031	0.0647	0.0069	0.0716

TY08 Costs

	6.1 unit cost	6.1 Costs (000s)	6.2 Costs Burdened Office (000s)	6.2 Costs Burdened Street (000s)	7.1 Costs (000s)	7.2 Costs (000s)	10 Costs (000s)	Total piggybacked costs (000)	Permit Volume (000)	City Carrier Unit Cost	Rural Carrier Unit Cost	Total Unit Cost
Single-Piece Letters Stamped	0.0192	396,908	112,171	19,989	520,689	68,508	130,772	1,580,343	20,642,271	0.0690	0.0076	0.0766
Single-Piece Letters Metered	0.0214	267,157	75,502	12,110	315,467	41,507	79,230	1,001,057	12,506,408	0.0725	0.0076	0.08004
Single-Piece Letters Other	0.0186	26,929	7,611	1,400	36,466	4,798	9,158	109,260	1,445,652	0.0680	0.0076	0.0756
First-Class Single-Piece Letters TY	0.0200	690,994	195,284	33,499	872,621	114,812	219,161	2,690,660	34,594,330	0.0702	0.0076	0.0778

*Categories from tab 'SP Table' in USPS-LR-L-87 "Standard First Wgt Ind Tables.xls" are broken down this way:

Stamped:
Stamp
Stamped Envelope (postage embossed envelope)
Stamped Card (postage embossed card)
Precanceled Stamp
Semi-postal Stamp

Metered:
Meter (including IBI)
Meter - PVI

Other:
Permit Imprint
Franked Mail
Armed Forces Free Mail
Absentee Ballots
Unauthorized Use of Penalty Indicia

RESPONSE OF POSTAL SERVICE WITNESS KELLEY
TO INTERROGATORIES OF MMA

MMA/USPS-T30-7

Please refer to Library Reference LR-USPS-L-67, Book UDCInputs.USPS.xls, sheet DPS%, where you derive DPS %s for First-Class presorted letters.

A. Please confirm that you show that, of the 48.148 billion total presorted letters, 43.134 billion pieces were delivered by city and rural carriers? If you cannot confirm, please provide the correct information, reference your sources and explain.
B. If you confirm part (A), were the remaining 5.014 billion pieces delivered to post office boxes? If not, please explain.
C. Please confirm that you show that of 46.408 billion total Automation letters, 34.559 billion were delivered by city and rural carriers? If you cannot confirm, please provide the correct information, reference your sources and explain.
D. If you can confirm part (C), were the remaining 11.849 billion pieces delivered to post office boxes? If not, please explain.
E. Please confirm that you show that, of the total 1.739 billion Nonautomation letters, 8.575 billion were delivered by city and rural carriers? If you cannot confirm, please provide the correct information, reference your sources and explain.
F. Please explain the apparent anomaly suggested in part (E) whereby the total number of pieces delivered by city and rural carriers exceeds the total number of pieces.

Response

A. Confirmed

B. I don't know. Presumably those pieces are divided between the following modes of delivery: post office boxes; highway contract routes; and general delivery.

C. Confirmed

D. I don't know. Presumably those pieces are divided between the following modes of delivery: post office boxes; highway contract routes; and general delivery.

E. Confirmed.

RESPONSE OF POSTAL SERVICE WITNESS KELLEY TO INTERROGATORIES OF MMA

F. Witness Abdirahman addressed the difficulties for data collectors to distinguish between automation and non-automation mail pieces in response to POIR No. 1 question 1(a) in docket R2005-1. I have no additional insight to offer on the issue.

RESPONSE OF POSTAL SERVICE WITNESS KELLEY TO INTERROGATORIES OF MMA

MMA/USPS-T30-8

Please refer to Library Reference LR-USPS-L-67, Book UDCInputs.USPS.xls, sheet DPS%, where you derive DPS %'s for First-Class presorted letters. Please provide the exact source and derivation for each of the following:

A. 24.062 billion First-Class Automation letters delivered by city carriers;
B. 5.903 billion First-Class Nonautomation letters delivered by city carriers;
C. 10.498 billion First-Class Automation letters delivered by rural carriers;
D. 2.672 billion First-Class Nonautomation letters delivered by rural carriers;
E. 21.054 billion First-Class Automation letters DPSed and delivered by city carriers;
F. 4.666 billion First-Class Nonautomation letters DPSed and delivered by city carriers;
G. 8.403 billion First-Class Automation letters DPSed and delivered by rural carriers; and
H. 1.955 billion First-Class Nonautomation letters DPSed and delivered by rural carriers.

Response

A.-H. For the estimates pertaining to city carriers, the source is the City Carrier Cost System (CCCS). For the estimates pertaining to rural carriers the source is the Rural Carrier Cost System (RCCS). The table below shows the derivations of the estimates requested in the question.

RCCS		Rural	Other Letter	Sector Segment Letter	DPS Letter	Total
Volume	Description	Nonauto	666,102	50,404	1,955,295	2,671,800
1,955,295	FIRST CLASS LFP NONAUTO PRESORTED DPS LETTER	Auto	1,945,993	148,387	8,403,477	10,497,857
50,404	FIRST CLASS LFP NONAUTO PRESORTED SECTOR SEG LETTER					
666,102	FIRST CLASS LFP NONAUTO PRESORTED OTHER LETTER					
8,221,936	FIRST CLASS LFP AUTOMATION NONCARRIER DPS LETTER					
136,629	FIRST CLASS LFP AUTOMATION NONCARRIER SECTOR SEG LETTER					
1,845,333	FIRST CLASS LFP AUTOMATION NONCARRIER OTHER LETTER					
181,541	FIRST CLASS LFP AUTOMATION CARRIER DPS LETTER					
11,758	FIRST CLASS LFP AUTOMATION CARRIER SECTOR SEG LETTER					
100,661	FIRST CLASS LFP AUTOMATION CARRIER OTHER LETTER					
CCCS						
Volume	Description	City	Other Letter	DPS Letter	Total	
4,666,336	FIRST CLASS LETTER/PARCEL NONAUTO PRESORTED DPS LETR	Nonauto	1,236,770	4,666,336	5,903,107	
1,236,770	FIRST CLASS LETTER/PARCEL NONAUTO PRESORTED OTHER LTR	Auto	3,007,586	21,053,991	24,061,577	
20,836,628	FIRST CLASS LETTER/PARCEL AUTO NONCARRIER DPS LETTER					
2,968,325	FIRST CLASS LETTER/PARCEL AUTO NONCARRIER LETTER					
217,363	FIRST CLASS LETTER/PARCEL AUTO CARRIER DPS LETTER					
39,261	FIRST CLASS LETTER/PARCEL AUTO CARRIER LETTER					

RESPONSE OF POSTAL SERVICE WITNESS KELLEY
TO INTERROGATORIES OF MMA

MMA/USPS-T30-10

Please refer to LR-USPS-L-67, book UDCInputs.USPS.xls, sheet DPS%, where you derive DPS %s for First-Class presorted letters.

A. Please provide comparable volumes for all First-Class single piece letters and for First-Class single piece letters broken down by (1) stamped, (2) metered, and (3) "other."
B. Please provide the derived DPS %s for all First-Class single piece letters and for First-Class single piece letters broken down by (1) stamped, (2) metered, and (3) "other."

Response

A. The requested volumes are not available. Neither carrier system breaks down data on First Class Single Piece letters into (1) stamped, (2) metered, or (3) other.. The table below has the estimated First Class Single Piece letter volumes from each carrier system.

First Class Single Piece BY05	Letter (shaped) Volume (000)
CCCS	17,071,899
RCCS	6,978,087
CCCS + RCCS	24,049,986

B. The table below has the base year estimated DPS percentages for First Class Single Piece letters by carrier system.

First Class Single Piece BY05	DPS %
CCCS	72.1%
RCCS	70.0%
CCCS + RCCS	71.5%

RESPONSE OF POSTAL SERVICE WITNESS KELLEY
TO INTERROGATORIES OF MMA

MMA/USPS-T30-11

Please refer to Library Reference LR-USPS-L-67, book UDCModel.USPS.xls, sheet 9.DeliveryVols, where you provide First-Class presorted volumes of letters delivered by city and rural carriers and sheet 11.SummaryBY where you provide the RPW First-Class presorted letter volumes Please confirm the volumes as shown in the following table for the rate categories within First-Class presorted letters. If you cannot confirm, please provide corrected figures.

First-Class Presorted Category	Permit Volume (000)	CC Volumes (Based on Permit Volume) (000)	Rural Route Volume (Based on Permit Volume) (000)	Implicit P.O. Box Volume (Based on Permit Volume) (000)
Auto Mixed AADC	2,875,272	1,789,429	786,747	299,095
Auto AADC	2,500,365	1,556,106	684,163	260,096
Auto 3-Digit	22,908,988	14,257,440	6,268,482	2,383,065
Auto 5-Digit	17,449,671	10,859,827	4,774,674	1,815,170
Auto Carrier Route	673,921	419,416	184,402	70,103
Total Automation	46,408,216	28,882,218	12,698,469	4,827,530
Nonauto	1,739,317	1,082,466	475,921	180,929
Total Presorted	48,147,533	29,964,684	13,174,390	5,008,459

Response

Confirmed. However, the heading on the last column should reflect that volume not delivered by city and rural carriers is divided between post office boxes, highway contract routes, and general delivery.

RESPONSE OF POSTAL SERVICE WITNESS KELLEY
TO INTERROGATORIES OF MMA

MMA/USPS-T30-13

Please refer to Library Reference USPS-LR-L-67, book UDCModel.USPS.xls, sheets 2.Summary TY and 11.Summary BY and your response to R2005-1 Interrogatory MMA/USPS-T16-13. Please provide a similar table of delivery costs with collection costs removed for BY 2005 and TY2008 in this case, in the same manner as you answered R2005-1 Interrogatory MMA/USPS-T16-13.

Response

Collection costs are included in the Single Piece letter Test Year 2008 unit delivery cost of **7.734** cents. The Single Piece letter Test Year unit delivery cost without collection costs is **5.152** cents. The difference between the two unit costs is **2.582** cents. Multiplication of this cost differential by the Test Year Single Piece letter volume of 34.594 billion pieces produces at Test Year total collection cost of **$893.1** million, which consists of **$827.7** million in city carrier cost, and **$65.4** million in rural carrier cost. To reproduce these calculations, perform the following steps within library reference USPS-LR-L-67, "UDCInputs.USPS.xls" and "UDCModel.USPS.xls", and within library reference USPS-LR-L-5, B_Workpapers, "CS06&7.xls". Steps 1-5, as described below, remove the Single Piece letter cost of collections due to city carriers, and step 6, as described below, takes out the costs from rural carriers.

1. In workbook "UDCInputs.USPS.xls" worksheet '7.0.6' change the values in cells C11, H11, K11, and T11 to zero
2. In workbook "CS06&7.XLS" , find the values reported in cells G11 of worksheets '7.0.6.5', '7.0.6.6', '7.0.6.7', '7.0.6.8', and '7.0.6.9'

   (a) Reduce the value in cell U11 of workbook "UDCInputs.USPS.xls" worksheet '7.0.6' by the amount in cell G11 of worksheet '7.0.6.5'.

(b) Reduce the value in cell V11 of "UDCInputs.USPS.xls" worksheet '7.0.6' by the amount in cell G11 of worksheet '7.0.6.6'.

(c) Reduce the value in cell W11 of "UDCInputs.USPS.xls" worksheet '7.0.6' by the amount in cell G11 of worksheet '7.0.6.7'.

(d) Reduce the value in cell X11 of "UDCInputs.USPS.xls" worksheet '7.0.6' by the amount in cell G11 of worksheet '7.0.6.8'.

(e) Reduce the value in cell Y11 of "UDCInputs.USPS.xls" worksheet '7.0.6' by the amount in cell G11 of worksheet '7.0.6.9'.

3. In "UDCInputs.USPS.xls", '7.0.6', sum the values in cells S11 through Z11 (where T11 – Z11 have been reduced per instructions 1 and 2 above), and divide this sum by the sum of the values in cells S23 through Z23.

(a) Multiply the resulting ratio by the value in cell AC23 to calculate the new lower value for cell AC11.

(b) Multiply this same ratio by the value in cell AE23 to calculate the new lower value for cell AE11.

4. In "UDCInputs.USPS.xls", '7.0.6', sum the values in cells C11 through L11 (where C11, H11, and K11 have been reduced per instruction 1), and divide this sum by the sum of the values in cells C23 through L23.

(a) Multiply the resulting ratio by the value in cell O23 to calculate the new lower value for cell O11.

(b) Multiply this same ratio by the value in cell Q23 to calculate the new lower value for cell Q11.

5. In "UDCInputs.USPS.xls", worksheet 'CS7Shape', change the value in cell K10 to zero.

6. In "UDCModel.USPS.xls", worksheet '8.RuralCrosswalk', change the values in cells R10 – T10 to zero.

7. Steps 1-6 remove the collection costs from the base year costs. In order to remove the collection costs from the test year costs, an additional calculation must be implemented in column H-K cells of line no. 6 of worksheet '2.summary TY' in "UDCModel.USPS.xls". In each cell, the results of the existing formula must be multiplied by the ratio of base year costs without collections for that cell (from the version of worksheet 1 generated by steps 1-6 above) to base year costs with collections for that cell (from the version of worksheet 11 that existed before steps 1-6 were applied).

After steps 1 through 7 are completed, the Test Year 2008 Single Piece letter unit delivery cost without collection costs will equal **5.152** cents.

RESPONSE OF POSTAL SERVICE WITNESS KELLEY
TO INTERROGATORIES OF MMA

MMA/USPS-T30-14

On page 7 of your direct testimony, you indicate that the DPS %s that you derived were "very similar" to those derived by USPS witness Abdiraham in his mail flow models. Please provide the analyses comparing your DPS %s to those derived by USPS witness Abdiraham that you believe supports your position that the DPS %s derived from both methodologies are "very similar."

Response

I compared the DPS percentages for First Class Presort automation letters, First Class Presort automation cards and, Standard Regular machinable letters from the model used in Docket R2005-1 and the carrier systems for the base year and judged them to be similar. The table below provides the DPS percentages for the categories I compared from the two different sources.

Rate Category	DPS% R2005-1	DPS% R2006-1
First Class Presort automation letters	83.4%	85.2%
First Class Presort automation cards	82.6%	81.9%
Standard Regular machinable letters	84.0%	81.9%

RESPONSE OF POSTAL SERVICE WITNESS KELLEY
TO INTERROGATORIES OF MMA

MMA/USPS-T30-15

Please refer to Library Reference USPS-LR-L-67, book UDCModel.USPS.xls, sheet 2.Summary TY. When applying the piggyback factors for First-Class presorted letters in columns 12 and 13, why did you use the First-Class single piece piggyback factor rather than the presorted piggyback factor from UDCInputs.xls, sheet TYPBack?

Response

Cells N17 through O19 in worksheet '2SummaryTY' incorrectly reference the test year piggyback factors for First Class Single Piece rather than First Class Presort. Applying the correct factors, however, has virtually no impact on the city and rural unit costs since the difference between the First Class Single Piece and First Class Presort piggyback factors is 0.002 and (.0002) for city and rural respectively.

Since the unit delivery costs provided in Table 1 do not use the unit costs calculated in columns 12 and 13, they are correctly derived. They are calculated by taking the test year piggyback costs in column L divided by the test year originating volume in column M. The test year costs in column L apply the correct piggyback factors to the First Class Presort letter costs.

RESPONSE OF POSTAL SERVICE WITNESS KELLEY
TO INTERROGATORIES OF MMA

MMA/USPS-T30-16

Please refer to page 7 of your direct testimony where you state that the DPS %s are an important distribution key for First-Class presorted letters since Nonautomation letters require more manual processing to prepare the mail for delivery. Is it true that MAADC letters required more manual processing than 5-digit letters to prepare the mail for delivery? Please explain your answer.

Response

I don't know. I based my reasoning on the higher estimated DPS percentage, derived from the carrier systems, for First Class Presort automation compared to First Class Presort non-automation.

MMA/USPS-T30-17

Please refer to Library References USPS-LR-K-67 from R2005-1, pages 1 and 2, and USPS-LR-L-67, page 1. These pages summarize your derived unit delivery costs for various rate categories for TY 2006 in R2005-1 and TY 2008 in R2006-1.

A. Please confirm the unit costs (cents) and percentage changes as shown in the following table. If you cannot confirm, please provide the correct unit costs as well as your computations.

	R2005-1 TY 2006			R2006-1 TY 2008			% Increase (Decrease)		
Rate Category	Letters	Flats	Parcels	Letters	Flats	Parcels	Letters	Flats	Parcels
FC Single Piece	7.189	12.416	30.049	7.734	14.327	35.094	**7.6%**	15.4%	16.8%
FC Automation	3.824			4.144			**8.4%**		
FC Nonautomation	6.939	9.424	20.636	4.696	11.588	35.790	**-32.3%**	23.0%	73.4%
FC Presorted	3.954			4.164			**5.3%**		
Std Reg Automation	3.710			3.596			**-3.1%**		
Std Reg Nonautomation	5.985	9.290	28.948	7.362	9.413	32.671	**23.0%**	1.3%	12.9%
Std Presorted	3.873			3.798			**-1.9%**		

B. Please explain why the unit delivery cost for First-Class Single Piece is expected to rise by 7.6% while the unit delivery cost for First-Class Automation letters is expected to rise by 8.4%.

C. Please explain why the unit delivery cost for First-Class Automation letters is expected to rise by 8.4% while the unit delivery cost for Standard Automation letters is expected to decline by 3.1%.

D. Please explain why the unit delivery cost for First-Class Nonautomation letters is expected to decline by 32.3%.

E. Please explain why the unit delivery cost for Standard Nonautomation letters is expected to rise by 23.0%.

F. Please explain why the unit delivery cost for First-Class Presorted letters is expected to increase by 5.3% while the unit delivery cost for Standard Presorted letters is expected to decline by 1.9%.

Where more than one factor is responsible for the projected increase or decrease in particular unit delivery costs, please identify each factor separately and provide your best estimate of contribution such factor makes to the overall percentage increase or decrease in unit delivery costs.

Response:

A. Not Confirmed. In the table below, I provide what I believe to be appropriate revisions. In constructing this table, I changed the category for comparison of unit delivery costs from R2005-1 for Standard Regular letters from Auto/Non Auto to Machinable/Non-Machinable, to make them comparable with the unit delivery

costs in the instant docket. Secondly, I changed the costs in the table for TY08 Standard Auto/Non Auto letters to reflect the addendum in my direct testimony. Lastly, I changed the row heading on the last row to Standard Regular rather than Standard Presort. The changes made to the table are in **bold underlined type**.

	R2005-1 TY 2006			R2006-1 TY 2008			% Increase (Decrease)		
Rate Category	Letters	Flats	Parcels	Letters	Flats	Parcels	Letters	Flats	Parcels
FC Single Piece	7.189	12.416	30.049	7.734	14.327	35.094	**7.6%**	15.4%	16.8%
FC Automation	3.824			4.144			**8.4%**		
FC Nonautomation	6.939	9.424	20.636	4.696	11.588	35.790	**-32.3%**	23.0%	73.4%
FC Presorted	3.954			4.164			**5.3%**		
Std **Reg Machinable**	**3.713**			**3.782**			**1.9%**		
Std **Reg Non-Machinable**	**11.050**	9.290	28.948	**8.069**	9.413	32.671	**-27.0%**	1.3%	12.9%
Std **Regular**	3.873			3.798			**-1.9%**		

B. The table below illustrates the major elements that constitute delivery costs and identifies the magnitude each element has in terms of the percentage change in delivery costs from TY06 to TY08. The piggyback factors are included in the calculation of the percentages in the table, so, as a result, the figures can be summed across cost segments 6, 7, and 10 to equal the percentage change in unit delivery costs from TY06 to TY08. For example, the delivery costs for First Class Single Piece Letters rose 7.6 percent from TY06 to TY08, which is comprised of 0.5 percent increase in 6.1 Direct Casing and 1.4 percent in Direct Non-Casing, etc.

Rate Category (letter shaped)	**6.1 Direct Casing**	**6.1 Direct Non-Casing**	**6.2 Support Burdened on Office**	**6.2 Support Burdened on Street**	**7.1 Delivery Activity**	**7.2 Delivery Support**	**10 Rural**	**Total**
FC Single Piece	0.5%	1.4%	0.8%	0.0%	3.7%	0.6%	0.6%	7.6%
FC Automation	3.6%	1.2%	1.6%	-0.1%	0.9%	0.1%	1.2%	8.4%

C. The table below displays the information in the same manner as I explained in my response to part B. This table compares the changes First Class Automation letters and Standard Regular Machinable letters from TY06 to TY08.

Rate Category (letter shaped)	6.1 Direct Casing	6.1 Direct Non-Casing	6.2 Support Burdened on Office	6.2 Support Burdened on Street	7.1 Delivery Activity	7.2 Delivery Support	10 Rural	Total
FC Auto	3.6%	1.2%	1.6%	-0.1%	0.9%	0.1%	1.2%	8.4%
Std Reg Mach	-0.7%	0.5%	0.0%	-0.1%	0.5%	0.1%	1.5%	1.9%

D. The table below displays the information in the same manner as I explained in my response to part B. As the table shows, a large portion of the decrease in unit delivery costs is due to a sharp reduction in Direct Casing costs.

Rate Category (letter shaped)	6.1 Direct Casing	6.1 Direct Non-Casing	6.2 Support Burdened on Office	6.2 Support Burdened on Street	7.1 Delivery Activity	7.2 Delivery Support	10 Rural	Total
FC Non-auto	-21.9%	0.6%	-5.7%	-0.1%	0.5%	0.1%	-5.8%	-32.3%

E. After I made my changes to the table provided in the question, the percentage change in delivery costs for Standard Non-Machinable letters is -27 percent. The table below displays the factors responsible for the decreased unit costs in the same manner as my response to part B. As the table indicates, a large portion of the decrease in unit delivery costs is due to the sharp reduction in Direct Casing costs.

Rate Category (letter shaped)	6.1 Direct Casing	6.1 Direct Non-Casing	6.2 Support Burdened on Office	6.2 Support Burdened on Street	7.1 Delivery Activity	7.2 Delivery Support	10 Rural	Total
Standard Non-Mach	-20.0%	0.2%	-5.3%	-0.1%	0.2%	0.0%	-2.0%	-27.0%

F. The table below compares the changes in unit delivery costs for First Class Presort letters and Standard Regular in the same manner as my response to part B.

Rate Category (letter shaped)	6.1 Direct Casing	6.1 Direct Non-Casing	6.2 Support Burdened on Office	6.2 Support Burdened on Street	7.1 Delivery Activity	7.2 Delivery Support	10 Rural	Total
FC Presort	1.7%	1.1%	1.0%	-0.1%	0.8%	0.1%	0.7%	5.3%
Standard Regular	-3.0%	0.5%	-0.6%	-0.1%	0.5%	0.1%	0.7%	-1.9%

MMA/USPS-T30-18

Please refer to your responses to Interrogatory MMA/USPS-T30-6 where you provide a breakdown of delivery costs for First Class letters by indicia. That answer indicates that the TY 2008 unit delivery costs per originating piece for stamped letters, metered letters and other letters are 7.608 cents, 9.316 cents and 5.300 cents, respectively.

A. Please confirm that the unit costs you provide are not directly comparable in that you cannot conclude that it costs more to deliver a metered letter than a stamped letter simply because the number of originating pieces that do not incur delivery costs (i.e., such pieces are delivered to a post office box) may not be proportional for each category of letters. If you cannot confirm, please explain.
B. Given your reported results, is it likely that stamped letters cost more to deliver than metered letters? Please explain your answer.
C. Please compare your First Class single piece unit delivery costs by indicia to your response to Interrogatory MMA/USPS-T16-6 in R2005-1, particularly where you have provided the BY 2004 unit delivery cost for cost segment 6.1. Why has the unit delivery cost for "other" letters decreased by 76%, from 2.21 cents to .53 cents, between BY 2004 and BY 2005?

Response:

A. I agree that the unit delivery costs derived in response to MMA/USPS-T30-6 are affected by the percentage of originating volume that is delivered by city and rural carriers. However, I think the unit costs are in some sense still comparable, since both are the ratio of volume variable costs incurred in cost segments 6, 7, and 10, to originating volume.

B. No. Please note that I have revised my response to MMA/USPS-T30-6. My revised results in the table below show that the unit cost (per originating piece) is less for stamped letters than for metered letters. Therefore, I do not conclude that stamped letters cost more to deliver than metered letters.

First Class Single Piece	TY08 Unit Delivery Cost (per originating piece) Cents
Stamped Letters	7.613.
Metered Letters	7.960

[1]Source: MMA/USPS-T30-6 (revised)

C. My revised results are included in the table below. The unit casing costs for 'Other Letters' differs by -0.43 cent or, equivalently, a 19.5 percent decrease from BY04. Since the delivery costs and originating volume for 'Other Letters' dropped by more than fifty percent between BY05 and BY04, I find it difficult to explain changes in unit costs that have occurred.

First Class Single Piece	BY05 6.1 UDC (Cents)	BY04 6.1 UDC (Cents)
Stamped Letters	1.834	1.631
Metered Letters	2.037	2.106
Other Letters	1.777	2.206

[1]Source: MMA/USPS-T30-6 (revised) and MMA/USPS-T16-6 (Docket R2005-1)

Revised Response of Postal Service Witness Kelley to Interrogatories Posed by the Major Mailers Association

MMA/USPS-T30-19

Please refer to your response to Interrogatory MMA/USPS-T30-2. Part (C) of that question asked you to provide unit delivery costs per delivered letters for various categories off First-Class letters.

A. Please provide the source and derivation of each of the cost figures shown in your table.
B. Please provide the source and derivation of each of the volume figures that you used in order to compute the unit costs as shown in your table.
C. Please explain why it might cost the same to deliver a Mixed AADC Automation letter (4.464 cents) and a 5-digit Automation letter (4.464 cents).
D. Please explain why it might cost more to deliver a single piece metered letter (15.23 cents) than a single piece stamped letter (12.64 cents).
E. Please explain why it might cost more than three times as much to deliver a single piece metered letter (15.23 cents) as it costs to deliver an automation letter (4.55 cents).

Response:

A. and B. Refer to the attached workbook for the sources and derivations for the underlying figures from the table provided in response to MMA/USPS-T-30-2(C). The unit delivery costs in the attached spreadsheet were derived using the DPS percentages from the theoretical model rather than the DPS percentages from the carrier systems (otherwise all rate categories within automation would have the same unit delivery costs). One important result from using this method is the test year costs for First Class automation/non-automation [redacted] in the attached workbook will not equal the test year costs for First Class automation/nonautomation in USPS-LR-L-67.

B. Not applicable.

C. The delivery costs provided in the workbook for part A of this question (just the numerators) were derived using the methodology employed in Docket R2005-1, which relied on DPS percentages derived from a theoretical

model. Since the carrier systems do not record mail volume at the rate category level within First Class Automation, the relative unit delivery costs rely solely on the DPS percentages from the model. The higher the DPS percentage, the lower the unit delivery cost. The DPS percentages based on this model are 80.07 and 80.18 for Mixed AADC and 5-digit automation letters respectively. Therefore, the unit delivery costs for 5-digit automation letters is slightly lower than for Mixed AADC letters. Carrying out the division to a finer level of precision than I provided in response to MMA/USPS-T30-2(C) produces unit delivery costs of 4.751 cents for Mixed AADC and 4.744 cents for 5-digit automation letters.

D. My response to MMA/USPS-T30-2(C) is being revised. It provided unit costs per delivered piece for single piece and metered letters, not stamped letters. The table below provides the unit costs (per delivered piece) for First Class single piece, stamped, metered, and other letters.

Since neither carrier system captures volume for First Class metered letters separately from other First Class Single Piece letters, the unit delivery costs rely solely on the 6.1 Direct Casing Costs recorded by the In-Office Cost System (IOCS). The higher the unit direct casing costs (per delivered piece) the higher the unit delivery costs. The test year unit casing costs and delivery costs for Single Piece, stamped, metered, and other letters are provided in the table below.

Revised Response of Postal Service Witness Kelley to Interrogatories Posed by the Major Mailers Association

First Class	TY 6.1 Direct Casing Cost	TY City Volume	Unit TY6.1 Cost (per City Volume) Cents	UDC TY (per City + Rural Volume) Cents
Single Piece	$693,361	15,023,144	4.615	12.640
Stamped	$398,267	8,964,238	4.443	12.441
Metered	$268,072	5,431,109	4.936	13.008
Other	$27,022	627,797	4.304	12.282

The unit delivery costs, derived in this manner, for metered letters are more than for stamped or other letters because the unit direct casing costs are higher for metered letters than for stamped or other letters.

E. After my revision to the unit delivery cost (per delivered piece) for metered letters, the relevant unit costs are 13.008 and 4.650 cents for metered and automation letters, respectively. The resulting ratio of unit costs of metered letters to automation letters is 2.80, rather than greater than three. The table below illustrates the test year unit costs by subcomponent (with piggybacks included) which shows that a large portion of the difference can be found in 6.1 direct casing (2.583 cents) and 7.1 delivery activity (3.468 cents). The difference in casing costs is probably due to automation letters having a higher DPS percentage than metered letters. The disparity in delivery activity costs can be explained by the collection costs incurred by metered letters and not by automation letters.

Revised Response of Postal Service Witness Kelley to Interrogatories Posed by the Major Mailers Association

Rate Category (letter shaped)	6.1 Direct Casing	6.1 Direct Non-Casing	6.2 Support Burdened on Office	6.2 Support Burdened on Street	7.1 Delivery Activity	7.2 Delivery Support	10 Rural	Total (Cents)
etered	3.753	0.677	1.248	0.200	5.213	0.686	1.232	13.008
Auto	1.170	0.197	0.387	0.069	1.745	0.214	0.867	4.650
Difference (Met-Auto)	2.583	0.480	0.861	0.131	3.468	0.472	0.365	8.358

REVISED 8/15/06

Worksheet	Function
UDC Summary	Table with TY08 Unit Delivery Costs per Delivered Piece for Requested Categories
UDCMMA19	Derivation of Unit Costs to answer Interragatory MMS/USPS-T30-19
TYPresortLettersUSPS	Derivation of Test Year Unit Delivery Costs for Presorted Letters by Rate Category
BYPresortLettersUSPS	Derivation of Base Year Unit Delivery Costs for Presorted Letters by Rate Category
RuralBY	Derivation of Base Year Rural Delivery Costs
Casing	Calculates casing cost per piece based on aggregate DPS percentage for First Class Presort

Category	TY08 UDC Per Delivered Piece Cents
FC Single Piece	12.640
FC Metered	13.008
Nonautomation	4.586
Automation	4.650
Mixed AADC	4.751
AADC	4.589
3 Digits	4.516
5 Digits	4.744

	TY Costs	TY/BY Volume	TY Orig Vol	BY RPW Volume	City BY Volume	Rural BY Volume	City TY Volume	Rural TY Volume	City + Rural	$ Cost/Delivered
Column	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Source	LR-67 '2Summary TY'		LR-67 '2Summary TY'	LR-67 'SummaryBY'	LR-67 '9DeliveryVolumes	LR-67 '9DeliveryVolumes'				
Derivation		(3)/(4)					(5)*(2)	(6)*(2)	(7)+(8)	(1)/(9)
Single Piece	$ 2,675,500	0.87988155	34,594,330	39,317,031	17,074,053	6,983,381	15,023,144	6,144,548	21,167,692	$ 0.12640
Metered	$ 995,455	0.87988155	12,506,408	14,213,740	6,172,545	2,524,605	5,431,109	2,221,353	7,652,462	$ 0.13008
Nonautomation	$ 70,482	0.98619516	1,715,306	1,739,317	1,082,466	475,921	1,067,523	469,351	1,536,874	$ 0.04586
Automation	$ 1,906,671	0.98619515	45,767,558	46,408,216	28,882,218	12,698,469	28,483,503	12,523,166	41,006,672	$ 0.04650
Mixed AADC	$ 120,699	0.98619516	2,835,579	2,875,272	1,789,429	786,747	1,764,726	775,887	2,540,613	$ 0.04751
AADC	$ 101,383	0.98619516	2,465,848	2,500,365	1,556,106	684,163	1,534,624	674,719	2,209,342	$ 0.04589
3 Digits	$ 914,110	0.98619516	22,592,733	22,908,988	14,257,440	6,268,482	14,060,619	6,181,946	20,242,565	$ 0.04516
5 Digits	$ 731,415	0.98619516	17,208,781	17,449,671	10,859,827	4,774,674	10,709,909	4,708,760	15,418,669	$ 0.04744
Presort Total	$ 1,977,153	0.98619516	47,482,864	48,147,533	29,964,684	13,174,390	29,551,026	12,992,520	42,543,546	$ 0.04647

Notes - Columns

(1) In USPS-LR-L-67 Test Year Costs are only available for FC Single Piece Auto and Non Auto
For rate categories within FC Presort, the test year costs come from worksheet 'TestYearPresort Letters' within this workbook
FC Metered TY costs come from the response to MMA/USPS-T-30-6 (revised)

(3) FC Single Piece Metered volume is derived by taking the ratio of TY FCSP/BYFC SP * BYFCMet
(3) TYVol for Rate Categories within FC Presort are derived similarly TYFCPS/BYFCPS *BYFCPS (Rate Cat i)

(5)and (6) Since FC Metered Volume not estimated by carrier systems volume is estimated with FC Single Piece ratio
(5)and (6) City and Rural Volume for Auto/Non-Auto and rate categories within Auto the RPW ratio was used

First Class Presort Letters	OPEX (1)	Cased % (2)	TOTAL IN OFFICE DIRECT LABOR CASING COST (3)	NON CASED % (4)	TOTAL IN OFFICE DIRECT LABOR CASING PLUS NON CASING COST PER TOTAL CCS PIECE (5)	CCS VOLUME BY PERMIT CATEGORY (6)	TOTAL IN OFFICE DIRECT LABOR CASING PLUS NON-CASING COST (7)	Permit volume (8)	6.1 In Office Direct Labor Casing (9)	6.1 In Office Direct Labor Non Casing (10)	6.2.1 In Office Overhead & Support Burdened on Office (11)	7.1 Delivery Activities (12)	7.2 Delivery Activities Support (13)	6.2.2 - Office Support Burdened on Street (14)	8 Rural Carriers (15)	Total City (16)	USPS City Piggyback Factor (17)	USPS Rural Piggyback Factor (18)	Total Piggyback Costs (19)	City Unit Delivery Cost (20)	Rural Unit Delivery Cost (21)	Unit Delivery Cost (22)
Nonautomation -- Nonmach Mixed AADC	0.00%	100.00%	$ 353.95	0.00%	$ 0.05012	6,317	$ 128	10,042	214	14	$ 92.85	$ 124	$ 5	$ 5	$ 157	$ 565	1.283	1.188	$ 901	$ 0.0711	$ 0.0186	$ 0.0897
Nonautomation -- Nonmach AADC	0.00%	100.00%	$ 48.58	0.00%	$ 0.05012	2,998	$ 155	4,756	144	7	$ 43.94	$ 59	$ 2	$ 2	$ 74	$ 284	1.283	1.188	$ 425	$ 0.0711	$ 0.0186	$ 0.0897
Nonautomation -- Mach Mixed AADC	82.65%	25.61%	$ 5,658.72	74.39%	$ 0.01444	445,948	$ 6,648	708,662	5,659	896	$ 1,881.99	$ 8,748	$ 174	$ 345	$ 4,538	$ 18,897	1.283	1.188	$ 29,006	$ 0.0334	$ 0.0076	$ 0.0410
Nonautomation -- Mach AADC	82.65%	25.61%	$ 1,886.91	74.39%	$ 0.01444	148,702	$ 2,217	235,637	1,887	330	$ 627.55	$ 2,917	$ 58	$ 115	$ 1,513	$ 6,235	1.283	1.188	$ 9,672	$ 0.0334	$ 0.0076	$ 0.0410
Nonautomation -- Nonmach 3 Digit	0.00%	100.00%	$ 190.48	0.00%	$ 0.05012	3,845	$ 749	6,455	190	9	$ 56.34	$ 75	$ 3	$ 1	$ 95	$ 343	1.283	1.188	$ 547	$ 0.0711	$ 0.0186	$ 0.0897
Nonautomation -- Nonmach 5 Digit	0.00%	100.00%	$ 38.65	0.00%	$ 0.05012	778	$ 45	1,243	34	2	$ 11.47	$ 15	$ 1	$ 1	$ 19	$ 69	1.283	1.188	$ 111	$ 0.0711	$ 0.0186	$ 0.0897
Nonautomation -- Mach 3-Digit	84.92%	23.57%	$ 4,548.47	76.43%	$ 0.01346	389,499	$ 5,413	617,210	4,548	864	$ 1,512.24	$ 7,641	$ 938	$ 301	$ 1,807	$ 15,825	1.283	1.188	$ 24,510	$ 0.0324	$ 0.0073	$ 0.0397
Nonautomation -- Mach 5-Digit	84.92%	23.57%	$ 985.12	76.43%	$ 0.01346	84,359	$ 1,172	133,677	985	187	$ 331.88	$ 1,655	$ 203	$ 65	$ 625	$ 3,427	1.283	1.188	$ 5,309	$ 0.0324	$ 0.0073	$ 0.0397
Automation Mixed AADC	80.07%	27.93%	$ 24,764.68	72.07%	$ 0.01555	1,789,429	$ 28,718	2,835,575	24,764	3,971	$ 8,134.38	$ 35,104	$ 4,310	$ 1,383	$ 9,028	$ 77,887	1.263	1.188	$ 120,699	$ 0.0346	$ 0.0080	$ 0.0426
Automation AADC	82.54%	25.72%	$ 19,825.42	74.28%	$ 0.01449	1,458,106	$ 23,279	2,465,848	19,825	3,453	$ 6,589.63	$ 30,527	$ 3,748	$ 1,202	$ 5,468	$ 65,346	1.263	1.188	$ 101,383	$ 0.0335	$ 0.0076	$ 0.0411
Auto 3 Digit Letters	83.65%	24.72%	$ 174,578.88	75.28%	$ 0.01401	14,257,440	$ 296,219	22,582,733	174,579	31,641	$ 58,375.47	$ 279,696	$ 34,341	$ 11,015	$ 142,578	$ 589,647	1.263	1.188	$ 914,110	$ 0.0330	$ 0.0075	$ 0.0405
Auto 5-Digit Letters CSBCS/Manual Sites	49.85%	55.13%	$ 62,371.04	44.87%	$ 0.02860	2,283,389	$ 67,438	3,618,121	62,371	5,067	$ 10,090.09	$ 44,795	$ 5,500	$ 1,764	$ 36,501	$ 138,587	1.263	1.188	$ 218,399	$ 0.0484	$ 0.0120	$ 0.0604
Auto 5-Digit Letters Other Sites	88.26%	20.57%	$ 87,400.07	79.43%	$ 0.01202	8,576,438	$ 106,433	13,590,460	87,400	19,033	$ 30,128.52	$ 168,245	$ 20,657	$ 6,626	$ 78,770	$ 332,094	1.263	1.188	$ 513,016	$ 0.0309	$ 0.0069	$ 0.0377
Auto 5-Digit Letters	80.18%	27.84%	$ 149,771.11	72.16%	$ 0.01550	10,859,827	$ 173,672	17,208,791	149,771	24,151	$ 49,218.69	$ 213,343	$ 26,197	$ 8,396	$ 115,271	$ 472,681	1.263	1.188	$ 731,415	$ 0.0345	$ 0.0080	$ 0.0425
Auto CR Letters	52.54%	52.71%	$ 10,952.74	47.29%	$ 0.02744	414,416	$ 11,885	664,618	10,953	931	$ 1,364.21	$ 8,228	$ 1,010	$ 324	$ 6,505	$ 24,811	1.263	1.188	$ 38,064	$ 0.0472	$ 0.0116	$ 0.0588
Presort Letters Subtotal	81.85%	26.52%	$ 393,664.62	73.48%	$ 0.01487	29,964,884	$ 460,183	47,482,864	$ 393,664.62	$ 68,408.68	$ 130,260.47	$ 587,614	$ 72,173	$ 23,151	$ 310,278	$ 1,273,582	1.263	1.188	$ 1,977,153	$ 0.0339	$ 0.0078	$ 0.0416
Presort Letters Subtotal*Check			$ 393,664.62			29,964,884	$ 460,183.30	47,482,864	$ 393,664.62	$ 68,408.68	$ 130,260.47	$ 587,614	$ 72,173	$ 23,151	$ 310,278	$ 1,273,582	1.263	1.188	$ 1,977,153	$ 0.0339	$ 0.0078	$ 0.0416

Formula - Source of Column - Source Row 18 (Column Total) if applicable
(1) Witness Abdrahman model
(2) 1-(0.8*(1))
(3) Casing cost per piece * volume cased - worksheet 'Casing'
(4) 1-(2)
(5) Casing + Noncasing cost per piece - worksheet 'Casing'
(6) City volume divided using RPW proportions - USPS-LR-L-67 workbook UDCInputs USPS xls worksheet 'OPEX'
(7) (5) * cased volume - USPS-LR-L-67 workbook UDCModel USPS xls worksheet 'SummaryTY'
(8) base year originating volume - USPS-LR-L-67
(9) =(3) - USPS-LR-L-67 workbook UDCModel USPS xls worksheet 'SummaryTY'
(10) (7) - (3) - USPS-LR-L-67 workbook UDCModel USPS xls worksheet 'SummaryTY'
(11) (9)*(10)/(11)+(12) * lot13 - USPS-LR-L-67 workbook UDCModel USPS xls worksheet 'SummaryTY'
(12) ratio of RPW volume * 7.1 cost - USPS-LR-L-67 workbook UDCModel USPS xls worksheet 'SummaryTY'
(13) ratio of RPW volume * 7.2 cost - USPS-LR-L-67 workbook UDCModel USPS xls worksheet 'SummaryTY'
(14) ratio of RPW volume * 6.2 cost - USPS-LR-L-67 workbook UDCModel USPS xls worksheet 'SummaryTY'
(15) worksheet Ruralcosts - USPS-LR-L-67 workbook UDCModel USPS xls worksheet 'SummaryTY'
(16) (9)+(10)+(11)+(12)+(13)+(14)
(17) USPS-LR-L-67 workbook UDCInputs USPS xls worksheet 'TYPack'
(18) USPS-LR-L-67 workbook UDCInputs USPS xls worksheet 'TYPack'
(19) (16)*(17) + (15)*(18) - USPS-LR-L-67 workbook UDCModel USPS xls worksheet 'SummaryTY'
(20) (19)/(8) - USPS-LR-L-67 workbook UDCM USPS xls worksheet 'SummaryTY'
(21) (15) / (8) - USPS-LR-L-67 workbook UDCM USPS xls worksheet 'SummaryTY'
(22) (19)/(8) - USPS-LR-L-67 workbook UDCModel USPS xls worksheet 'SummaryTY'

First Class Presort Letters	DFS % (1)	Cased % (2)	TOTAL IN-OFFICE DIRECT LABOR CASING COST (3)	NON-CASED % (4)	TOTAL IN-OFFICE DIRECT LABOR CASING PLUS NON-CASING COST PER TOTAL CES PIECE (5)	CES VOLUME BY PERMIT CATEGORY (6)	TOTAL IN-OFFICE DIRECT LABOR CASING PLUS NON-CASING COST (7)	Permit Volume (8)	6.1 In-Office Direct Labor (Casing) (9)	6.1 In-Office Direct Labor Non-Casing (10)	6.2 In-Office Overhead & Support Burdened on Office (11)	7.1 Delivery Activities (12)	7.2 Delivery Activities Support (13)	8.2 In-Office Support Burdened on Street (14)	10 Rural Carriers (15)	Total City (16)	USPS City Piggyback Factor (17)	USPS Rural Piggyback Factor (18)	Total Piggyback Costs (19)	City Unit Delivery Cost (20)	Rural Unit Delivery Cost (21)	Unit Delivery Cost (22)
Nonautomation -- Nonmach Mixed ADC	0.00%	100.00%	$ 304.00	0.00%	$ 0.05012	F 337	$ 318	10 182	354	14	$ 86.54	$ 116	$ 14	$ 5	$ 34	$ 539	1.249	1.179	$ 831	$ 0.0661	$ 0.0155	$ 0.0816
Nonautomation -- Nonmach ADC	0.00%	100.00%	$ 141.87	0.00%	$ 0.05012	2,994	$ 150	4 810	144	6	$ 40.95	$ 55	$ 7	$ 2	$ 63	$ 259	1.249	1.179	$ 393	$ 0.0661	$ 0.0155	$ 0.0816
Nonautomation -- Mach Mixed AADC	82.65%	25.61%	$ 5,479.34	74.39%	$ 0.01444	445,948	$ 6,438	716 554	5,479	958	$ 1,753.95	$ 9,153	$ 1,207	$ 327	$ 35	$ 17,667	1.249	1.179	$ 22,113	$ 0.0308	$ 0.0001	$ 0.0309
Nonautomation -- Mach AADC	82.65%	25.61%	$ 1,827.09	74.39%	$ 0.01444	148,702	$ 2,147	238 936	1,827	320	$ 584.86	$ 2,710	$ 334	$ 109	$ 7	$ 5,891	1.249	1.179	$ 7,368	$ 0.0308	$ 0.0000	$ 0.0308
Nonautomation -- Nonmach 3-Digit	0.00%	100.00%	$ 184.44	0.00%	$ 0.05012	3,645	$ 193	6 178	184	8	$ 52.50	$ 70	$ 9	$ 3	$ 9,436	$ 327	1.249	1.179	$ 11,534	$ 0.0661	$ 1.8009	$ 1.8670
Nonautomation -- Nonmach 5-Digit	0.00%	100.00%	$ 37.33	0.00%	$ 0.05012	778	$ 39	1 250	37	2	$ 10.63	$ 14	$ 2	$ 1	$ 3,146	$ 86	1.249	1.179	$ 3,793	$ 0.0661	$ 2.9671	$ 3.0333
Nonautomation -- Mach 3-Digit	84.92%	23.57%	$ 4,404.28	76.43%	$ 0.01346	389,499	$ 5,241	625 850	4,404	837	$ 1,428.00	$ 7,127	$ 874	$ 285	$ 3,469	$ 14,045	1.249	1.179	$ 22,761	$ 0.0298	$ 0.0065	$ 0.0364
Nonautomation -- Mach 5-Digit	84.92%	23.57%	$ 953.89	76.43%	$ 0.01346	84,359	$ 1,135	135,548	954	181	$ 309.28	$ 1,542	$ 189	$ 61	$ 751	$ 3,037	1.249	1.179	$ 4,930	$ 0.0298	$ 0.0065	$ 0.0364
Automation Mixed AADC	80.07%	27.93%	$ 2,979.65	72.07%	$ 0.01555	1,769,429	$ 27,825	2,875,272	23,960	1,845	$ 7,580.08	$ 12,716	$ 4,017	$ 1,288	$ 17,188	$ 73,427	1.249	1.179	$ 111,999	$ 0.0319	$ 0.0070	$ 0.0390
Automation AADC	82.54%	25.72%	$ 19,196.96	74.28%	$ 0.01469	1,556,106	$ 22,541	2,500,765	19,197	3,344	$ 6,141.32	$ 28,450	$ 3,493	$ 1,120	$ 14,394	$ 61,746	1.249	1.179	$ 94,110	$ 0.0309	$ 0.0068	$ 0.0376
Auto 3-Digit Letters	83.65%	24.72%	$ 169,044.81	75.28%	$ 0.01401	14,257,440	$ 199,682	22,908,588	169,045	30,638	$ 54,404.01	$ 260,668	$ 32,004	$ 10,266	$ 120,591	$ 557,025	1.249	1.179	$ 848,689	$ 0.0304	$ 0.0067	$ 0.0370
Auto 5-Digit Letters CSBCS/Manual Sites	45.85%	55.13%	$ 60,393.91	44.87%	$ 0.02860	2,283,389	$ 65,301	3,668,971	60,394	4,967	$ 17,791.34	$ 41,747	$ 5,426	$ 1,644	$ 31,891	$ 131,609	1.249	1.179	$ 202,021	$ 0.0448	$ 0.0102	$ 0.0551
Auto 5-Digit Letters Other Sites	88.26%	20.57%	$ 84,629.52	79.43%	$ 0.01202	8,576,438	$ 103,059	13,780,759	84,630	18,436	$ 28,078.75	$ 156,802	$ 19,252	$ 6,175	$ 72,253	$ 313,368	1.249	1.179	$ 476,683	$ 0.0284	$ 0.0062	$ 0.0346
Auto 5-Digit Letters	80.18%	27.84%	$ 145,023.43	72.16%	$ 0.01550	15,859,427	$ 188,360	17,449,671	145,023	23,337	$ 45,870.12	$ 198,549	$ 24,378	$ 7,820	$ 104,144	$ 444,977	1.249	1.179	$ 678,704	$ 0.0319	$ 0.0070	$ 0.0389
Auto CR Letters	52.54%	52.71%	$ 10,606.51	47.29%	$ 0.02244	914,416	$ 11,508	673,421	10,607	901	$ 3,135.33	$ 7,668	$ 941	$ 302	$ 5,695	$ 23,555	1.249	1.179	$ 36,142	$ 0.0437	$ 0.0100	$ 0.0536
Presort Letters Subtotal	81.65%	26.52%	$ 381,185.61	73.48%	$ 0.01487	29,964,684	$ 445,576	48,147,533	$ 381,185.62	$ 64,391	$ 121,398	$ 547,842	$ 67,263	$ 21,576	$ 288,055	$ 1,203,656	1.249	1.179	$ 1,843,368	$ 0.0314	$ 0.0071	$ 0.0383
Presort Letters Subtotal Check			$ 381,185.62			29,964,684	$ 445,576.32	48,147,533	$ 381,185.62	$ 64,391.79	$ 121,398.48	$ 547,842	$ 67,263	$ 21,576	$ 288,055	$ 1,203,656	1.249	1.179	$ 1,843,368	$ 0.0312	$ 0.0071	$ 0.0383

Formula - Source of Column - Source Row 18 (Column Total) if applicable

(1) Witness Abdirahman model

(2) 1-(0.9*(1))

(3) Casing cost per piece * volume cased - worksheet Casing

(4) 1-(2)

(5) Casing + Noncasing cost per piece - worksheet Casing

(6) City volume divided using RPW proportions - USPS-LR-L-67 workbook UDCInputs USPS.xls worksheet DFS %

(7) (5) * cased volume - USPS-LR-L-67 workbook UDCModel USPS.xls worksheet SummaryBY

(8) base year originating volume - USPS-LR-L-87

(9) =(3) - USPS-LR-L-67 workbook UDCModel USPS.xls worksheet SummaryBY

(10) (7) - (3) - USPS-LR-L-67 workbook UDCModel USPS.xls worksheet SummaryBY

(11) (9)+(10)/(11)+(12) * tot13 - USPS-LR-L-67 workbook UDCModel USPS.xls worksheet SummaryBY

(12) ratio of RPW volume * 7.1 cost - USPS-LR-L-67 workbook UDCModel USPS.xls worksheet SummaryBY

(13) ratio of RPW volume * 7.2 cost - USPS-LR-L-67 workbook UDCModel USPS.xls worksheet SummaryBY

(14) ratio of RPW volume * 8.2 cost - USPS-LR-L-67 workbook UDCModel USPS.xls worksheet SummaryBY

(15) worksheet Ruralcosts - USPS-LR-L-67 workbook UDCModel.USPS.xls worksheet SummaryBY

(16) (9)+(10)+(11)+(12)+(13)+(14)

(17) USPS-LR-L-67 workbook UDCInputs USPS.xls worksheet BYPack

(18) USPS-LR-L-67 workbook UDCInputs USPS.xls worksheet BYPack

(19) (16)*(17) + (15)*(18) - USPS-LR-L-67 workbook UDCModel USPS.xls worksheet SummaryBY

(20) (16)/(8) - USPS-LR-L-67 workbook UDCModel USPS.xls worksheet SummaryBY

(21) (15) / (8) - USPS-LR-L-67 workbook UDCModel USPS.xls worksheet SummaryBY

(22) (19)/(8) - USPS-LR-L-67 workbook UDCModel USPS.xls worksheet SummaryBY

First Class Presort Letters	Permit Volume	Permit Volume %	DPS%	Cased %	DPS Permit Volume	% of Total DPS Permit Volume	DPS Cost	Other Letter Permit Volume	% of Total Other Letter Permit Volume	Other Letter Cost	Sector Segment Permit Volume	% of Total Sector Segment Permit Volume	Sector Segment Cost	Boxholder Volume	% of Boxholder Permit Volume	Boxholder Cost	Postage Due Volume	% of Postage Due Permit Volume	Postage Due Cost	Total Rural
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)
Nonautomation -- Nonmach Mixed ADC	10,182	0.02%	0.00%	100.00%		0.00%		9,462	0.12%	$ 135.68	720	0.12%	$ 10.13	5	0.12%	$ 0.16	0.04	0.0211%	$ 0.0034	$ 146
Nonautomation -- Nonmach ADC	4,819	0.01%	0.00%	100.00%		0.00%		4,478	0.05%	$ 64.21	341	0.05%	$ 4.80	2	0.05%	$ 0.08	0.02	0.0100%	$ 0.0016	$ 69
Nonautomation -- Mach Mixed AADC	715,554	1.49%	82.65%	25.61%	592,253	5.51%	2,431	135,510	1.41%	$ 1,656.32	8,791	1.41%	$ 123.71	64	1.41%	$ 1.98	3.00	1.4882%	$ 0.2407	$ 4,213
Nonautomation -- Mach AADC	238,936	0.50%	82.65%	25.61%	197,487	0.50%	811	38,517	0.47%	$ 552.30	2,931	0.47%	$ 41.25	21	0.47%	$ 0.66	1.00	0.4963%	$ 0.0803	$ 1,405
Nonautomation -- Nonmach 3-Digit	6,178	0.01%	0.00%	100.00%		0.00%		5,741	0.07%	$ 82.32	437	0.07%	$ 6.15	3	0.07%	$ 0.10	0.03	0.0128%	$ 0.0021	$ 89
Nonautomation -- Nonmach 5-Digit	1,250	0.00%	0.00%	100.00%		0.00%		1,162	0.01%	$ 16.66	88	0.01%	$ 1.24	1	0.01%	$ 0.02	0.01	0.0026%	$ 0.0004	$ 18
Nonautomation -- Mach 3-Digit	625,850	1.30%	84.92%	23.57%	531,480	1.35%	2,182	87,696	1.07%	$ 1,257.49	5,674	1.07%	$ 93.92	46	1.07%	$ 1.50	2.62	1.2999%	$ 0.2102	$ 3,535
Nonautomation -- Mach 5-Digit	135,548	0.28%	84.92%	23.57%	115,109	0.29%	472	18,993	0.23%	$ 272.35	1,445	0.23%	$ 20.34	10	0.23%	$ 0.32	0.57	0.2815%	$ 0.0455	$ 766
Automation Mixed AADC	2,875,272	5.97%	80.07%	27.93%	2,302,325	5.86%	9,450	532,427	6.48%	$ 7,634.55	40,520	6.48%	$ 570.21	294	6.48%	$ 9.11	12.03	5.9718%	$ 0.9658	$ 17,665
Automation AADC	2,500,365	5.19%	82.54%	25.72%	2,063,753	5.25%	8,471	405,734	4.94%	$ 5,817.88	30,878	4.94%	$ 434.52	224	4.94%	$ 6.94	10.46	5.1931%	$ 0.8398	$ 14,731
Auto 3-Digit Letters	22,908,988	47.58%	83.65%	24.72%	19,163,296	48.75%	78,658	3,460,790	42.39%	$ 49,611.58	264,901	42.39%	$ 3,727.78	1,921	42.39%	$ 59.55	95.86	47.5808%	$ 7.6947	$ 132,165
Auto 5-Digit Letters CSBCS/Manual Sites	3,668,971	7.62%	49.85%	55.13%	1,829,028	4.65%	7,508	1,209,819	20.82%	$ 24,517.36	133,124	20.82%	$ 1,831.14	944	20.82%	$ 29.25	15.35	7.6203%	$ 1.2323	$ 33,886
Auto 5-Digit Letters Other Sites	13,780,700	28.62%	88.26%	20.57%	12,162,335	30.94%	49,922	1,503,912	18.31%	$ 21,564.82	114,453	18.31%	$ 1,610.63	830	18.31%	$ 25.73	57.66	28.6218%	$ 4.6287	$ 73,128
Auto 5-Digit Letters	17,449,671	36.24%	80.18%	27.84%	13,991,363	35.59%	57,430	2,713,731	39.14%	$ 46,082.18	244,577	39.14%	$ 3,441.77	1,774	39.14%	$ 54.98	73.01	36.2421%	$ 5.8610	$ 107,014
Auto CR Letters	673,921	1.40%	52.54%	52.71%	354,072	0.90%	1,453	297,229	3.62%	$ 4,262.32	22,620	3.62%	$ 318.32	164	3.62%	$ 5.08	2.82	1.3997%	$ 0.2264	$ 6,039
Presort Letters Subtotal: Check	48,147,533	100.00%	81.65%	26.52%	39,311,139	100.00%	161,358	8,211,471	100%	$ 117,746	624,924	100%	$ 8,794	4,532	100.00%	$ 140.48	201.46	100.0000%	$ 16.1719	$ 288,055
Presort Letters Subtotal*	48,147,533																			288,055
	48,147,533	100%			$ 39,311,139	100%	$ 161,358	$ 8,211,471	100%	$ 117,746	624,924	100%	$ 8,794	453153%	100%	$ 140.48	201.46	100%	$ 16.17	$ 288,055
Ratio of Oth Ltrs to the Sum of Oth Ltrs and SecSeg Ltrs	92.93%																			

Formula - Source of Column

(1) Originating Volume - USPS-LR-L-87

(2) % by rate category

(3) Witness Abdirahman's model

(4) 1-(0.9*(3))

(5) (3)*(1)

(6) % DPS by rate category

(7) (6) * Rural Standard Letter DPS cost - USPS-LR-67 workbook UDCModel USPS xls worksheet 11b Rural Disagg

(8) (1)-(5) *(other letters/other + sector segment) - USPS-LR-67 workbook UDCModel USPS xls worksheet 11b Rural Disagg

(9) % other by rate category

(10) (9) * Rural Standard Other Letter cost - USPS-LR-67 workbook UDCModel USPS xls worksheet 11b Rural Disagg

(11) (1)-(5)-(8)

(12) % sector segment by rate category

(13) (12) * Rural Standard Sector Segment cost - USPS-LR-67 workbook UDCModel USPS xls worksheet 11b Rural Disagg

(14) Ratio of total boxholder volume by rate category - USPS LR-L-67 workbook UDCMode- USPS xls worksheet 8 RuralCrosswalk

(15) total boxholder standard letters by rate category

(16) (15) * Rural Standard Boxholder letter cost - USPS-LR-67 workbook UDCModel USPS xls worksheet 11b Rural Disagg

(17) total postage due standard letters by rate category

(18) % postage due by rate category

(19) (18)*Rural Standard Postage Due letter cost -USPS-LR-67 workbook UDCModel USPS xls worksheet 11b Rural Disagg

(20) (7)+(10)+(13)+(16)+(19) - USPS-LR-67 workbook UDCModel USPS xls worksheet Summary BY

Line No.		Total In-Office Direct Labor Casing Plus Non-Casing, All Route Groups	Casing Portion Of In-Office Direct Labor, All Route Groups	Casing Portion Of In-Office Direct Labor, Letter Routes Only	Non-Casing Portion Of In-Office Direct Labor, All Route Groups	Assumed % Dps Mail Cased	CCS Volume	% DPS	% Cased	% Non-Cased	In-Office Direct Labor Casing Cost Per CCS Piece - Cased Pieces	In-Office Direct Labor Casing Plus Non-Casing Cost Per CCS Piece - Cased Pieces	In-Office Direct Labor Non-Casing Cost Per CCS Piece - Applied to All Pieces
	Col No:	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
	Units:	$(000)	$(000)	$(000)	$(000)		Pieces (000)						
	Source/Calculations:	IOCS CARMM	IOCS CARMM	IOCS CARMM	IOCS CARMM			Theoretical Model	(1 - C7) + (C7 x C5)	C7 x (1 - C5)	C2 / (C8 x C6)	C2 / (C8 x C6) + C12	C4 / C6
1	FC Presort - Letter-Shape Pieces Only	445,576	381,186	373,394	64,391	[illegible]	29,864,884	81.65%	26.52%	73.48%	0.0480	0.0501	0.0021

MMA/USPS-T30-20

Please refer to your response to Interrogatory MMA/USPS-T30-7, specifically where you acknowledge the anomaly suggested by Part (e) and your explanation in Part (f). Please explain why you feel it is appropriate to rely on this data for your purposes of deriving DPS %s for First Class Automation and Nonautomation letters when the volume of Nonautomation letters is clearly outside the bounds of reasonableness?

Response:

Given the inherent difficulties in post hoc identification of letters as either Automation rate versus Non-Automation rate, any procedure to disaggregate costs along this dimension will face significant challenges. I felt that the best option available to me was to use the DPS percentages from the carrier systems, as opposed to a theoretical model, for two reasons. First, the Postal Service no longer believed that the model used to derive DPS percentages was valid. Secondly, the consolidation in the instant docket (as compared with Docket No. R2005-1) of unit delivery costs to a higher level of aggregation, separate costs for First Class Auto/Non-Auto only, permitted me to use the information collected on city and rural routes which is specifically designed to allocate city street delivery costs and all rural delivery costs to classes of mail. I viewed as beneficial the ability to confine my analysis to data collected by the carrier cost systems, rather than having to rely on estimates from another source.

Response of Postal Service Witness Kelley to Interrogatories Posed by the Major Mailers Association

MMA/USPS-T30-21

Please refer to your response to Interrogatory MMA/USPS-T30-17. In your response you isolate and identify which delivery cost segments have changed significantly from the test years in R2005-1 and R2006-1.

A. In your response to Part (B), you note that cost segment 6.1 (direct casing) appears to increase by 3.6% for First-Class presort but just 0.5% for First-Class single piece. Can these results be explained by some specific phenomenon, for example, a change in the way cost data was collected or a significant change in the number of letters that can be delivery point sequenced (DPSed), or simply the result of unanticipated year to year fluctuations in the make-up of mail and/or the manner in which the Postal Service processes the letters for delivery? Please explain your answer.

B. In your response to Part (C), you note that cost segment 6.1 (direct casing) appears to increase by 3.6% for First-Class Automation but decreases by 0.7% for Standard Machinable Can these results be explained by some specific phenomenon, for example, a change in the way cost data was collected or a significant change in the number of letters that can be DPSed, or simply the result of unanticipated year to year fluctuations in the make-up of mail and/or the manner in which the Postal Service processes the letters for delivery? Please explain your answer.

C. In your response to Part (F), you note that cost segment 6.1 (direct casing) appears to increase by 1.7% for First-Class Presort but decreases by 3.0% for Standard Regular. Can these results be explained by some specific phenomenon, for example, a change in the way cost data was collected or a significant change in the number of letters that can be DPSed, or simply the result of unanticipated year to year fluctuations in the make-up of mail and/or the manner in which the Postal Service processes the letters for delivery? Please explain your answer.

Response

A. My response to Interrogatory MMA/USPS-T30-17 (B) compared the change in unit delivery costs between First Class Presort Automation and First Class Single Piece letters. When comparing those two rate categories, the 6.1 direct casing costs increase by 3.6 and 0.5 percent for First Class Presort Automation and First Class Single Piece letters respectively.

The 3.6 percent increase in 6.1 direct casing costs for First Class Presort automation letters must be analyzed in conjunction with the 1.7 percent increase in 6.1 direct casing costs for First Class Presort automation and non-automation

letters combined. The reason the percentage increase was higher for the automation rate category (and lower for the non-automation category) is due to the different estimated DPS percentages for automation letters used for the two years. USPS-LR-L-67 uses the DPS percentages to partition First Class Presort letter 6.1 costs to rate categories. In Docket No. R2005-1, the DPS percentage for First Class automation letters was 83.38 percent and in Docket No. R2006-1 the corresponding DPS percentage was 76.71 percent (0.9 x 85.24%). The lower DPS percentage causes a higher proportion of First Class Presort letter costs being allocated to automation letters this year as opposed to last year.

The 0.5 percent change in 6.1 direct casing costs for First Class Single Piece letters is small enough that it appears to me to be within the expected year to year sampling variation.

B. My response to part A. addressed the reason for the increase in First Class Presort Automation 6.1 direct casing costs. My understanding is that the reduction in 6.1 direct casing costs for Standard Regular Machinable letters may be explained by the introduction of the IOCS redesigned data collection instrument. Witness Bozzo (USPS-T-46) discusses this issue further on page 38 of his direct testimony.

C. I assume that nature of your question is to seek an explanation on why the year to year change in 6.1 direct casing costs are moving in opposite directions for First Class Presort and Standard Regular letters. Both of these changes are rather small, but I will try to provide plau ble explanations for each separately. I suspect that the 1.7 percent increase in First Class Presort direct casing costs is

likely within the expected year to year sampling variation. My understanding is that the three percent decrease in casing costs for Standard Regular letters may be explained by the introduction of the IOCS redesigned data collection instrument. Witness Bozzo (USPS-T-46) discusses this issue further on page 38 of his direct testimony.

MMA/USPS-T30-22

Please refer to your response to Interrogatory MMA/USPS-T30-18, which asked you about your ***original*** response to Interrogatory MMA/USPS-T30-6, where you showed, among other things, that, for TY 2008, the unit delivery cost per originating piece for stamped letters (7.608 cents) is lower than the comparable unit delivery cost for metered letters (9.316 cents). On July 12, 2006, you filed a revised response to Interrogatory MMA/USPS-T30- 6 showing that, for TY 2008, the unit delivery cost per originating piece for stamped letters (7.613 cents) is lower than the comparable unit delivery cost for metered letters (7.960 cents). Based on those revisions, in response to Part B of MMA/USPS-T30-18 you state that you do not conclude that Single Piece stamped letters cost ***more*** to deliver than metered letters. Can you now confirm that stamped letters cost ***less*** to deliver than metered letters? If yes, please support your answer. If no, please explain why not.

Response

The fact that the unit delivery cost, per originating piece, for stamped letters is less than for metered letters leads me to conclude that it costs less to deliver stamped letters than metered letters. Speculating further on a possible reason for this result, I suspect that a smaller proportion of stamped letters are delivered by city and rural carriers than metered letters. I envision a large portion of metered mail originating with businesses being sent to residences or other businesses. My view is that bill payments represent a significant portion of stamped volume, and often are delivered to post office boxes, thus not incurring delivery costs. However, since the city and rural carrier cost systems do not distinguish between stamped and metered volume, my supposition cannot be verified.

Response of Postal Service Witness Kelley to Interrogatories Posed by the Major Mailers Association

MMA/USPS-T30-23

In response to Interrogatory MMA/USPS-T30-19 (C) you state "[t]he unit delivery costs, derived in this manner, for metered letters are more than for stamped or other letters because the unit direct casing costs are higher for metered letters than for stamped or other letters." Please explain why the unit direct casing costs are higher for metered letters than for stamped letters. Do you believe these results are reasonable? If yes, please explain why. If no, please explain why not.

Response

I don't know. For the purposes of responding to this question, I will speculate on a possible reason that the unit direct casing costs for metered letters are higher than for stamped letters. I suspect that a ~~larger~~ smaller proportion of stamped letters are delivered by city carriers than metered letters. I envision a large portion of metered mail originating with businesses being sent to residences or other businesses. My view is that bill payments represent a significant portion of stamped letters, and often are delivered to post office boxes, thus not incurring carrier casing costs. I conclude that there are more metered letters for city carriers to case, and as a result the unit casing cost per originating piece is higher for metered letters than stamped letters. However, since the city carrier cost system does not distinguish between stamped and metered volume delivered by city carriers, my supposition cannot be verified.

Revised Response of Postal Service Witness Kelley to Interrogatories Posed by the Major Mailers Association

MMA/USPS-T30-25

Please refer to your revised response to Interrogatory MMA/USPS-T30-2. In that revised answer you show that, if a letter is delivered by a city or rural carrier, it costs the Postal Service 13.01 cents to deliver a First-Class metered letter and 4.55 cents to deliver a First-Class automation letter.

A. Please confirm that, on average, a single piece metered letter costs 8.46 (13.01 – 4.55) cents more to prepare for delivery and deliver than a First-Class automation letter. If you cannot confirm without qualification, please explain.

B. Please confirm that on average, 89.6% of First-Class automation letters are delivered by city or rural carriers. (*See* your response to MMA/USPS-T30-11). If you cannot confirm, please explain.

C. Please confirm that of the 8.46 cent difference between the cost of preparing for delivery and delivering a First-Class single piece metered letter and the comparable cost for a First-Class automation letter, 89.6% of the difference, or 7.58 cents, is the result of delivery cost differences and 10.4% of the difference or 0.88 cents is due to the fact that 10.4% of automation letters do not require delivery service. If you cannot confirm, please explain.

Response

A. Not confirmed. My interpretation of "prepare for delivery and deliver" is that collection costs should be excluded. However, the 13.01 unit cost for metered letters, per delivered piece, includes collection costs. The unit collection cost for metered letters per delivered piece is approximately 4.22 cents. Subtracting the unit collection cost from the total delivery cost equals a unit cost of 8.79 cents "to prepare for delivery and deliver" metered letters. Comparing this cost with the 4.65 (revised August 15, 2006) cents for First Class automation letters (which incur no collection costs) gives a difference of 4.14 cents between the two delivery (without collection) costs.

B. Confirmed.

C. Not confirmed. The unit costs of 13.01 and 4.65 (revised August 16, 2006) cents for metered and automation letters respectively are per delivered piece. If

these figures were per originating piece, then differences in the proportion of delivered pieces between the two categories might explain part of the discrepancy. Since these are per delivered piece, however, I do not see how the differences between the unit costs can be divided between the delivered and non-delivered proportions.

MMA/USPS-T30-26

Please refer to the attachment to your July 12, 2006 revised response to Interrogatory MMA/USPS-T30-6 and the following explanatory statement on the cover of that response: The response to MMA/USPS-T30-6 is being revised because the in [sic] original response, Information Based indicia (IBI) volume was included with 'Other Letters,' but the costs were included with 'Metered Letters'. In the revised response, both the costs and volumes associated with IBI are included with 'Metered Letters'.

A. When you provided a similar response to R2005-1 Interrogatory MMA/USPS-T16-6, please confirm that IBI volumes were included with 'Other Letters'. If no, please indicate where IBI volumes were included and why it was done that way.

B. When you provided a similar response to R2005-1 Interrogatory MMA/USPS-T16-6, were IBI costs included with 'Metered Letters' or with 'Other Letters'?

C. When you provided a similar response to R2005-1 Interrogatory MMA/USPS-T16-6, was that response accurate or should you have made the same modifications to the IBI volumes that you have made in your revised response to Interrogatory MMA/USPS-T30-6?

Response

A. Confirmed. In my response to MMA/USPS-T16-6 (Docket No. R2005-1), I included IBI volume with 'Other Letters'.

B. In my response to MMA/USPS-T-16-6 (Docket No. R2005-1), IBI costs were included with 'Metered Letters'.

C. My response to MMA/USPS-T16-6 (Docket No. R2005-1) was incorrect. The same modifications to my response that I made to my revised response to MMA/USPS-T30-6 (Docket No. R2006-1) would have been applicable in that docket as well.

Response of Postal Service Witness Kelley to Interrogatories Posed by the Major Mailers Association

MMA/USPS-T30-27

Please refer to your response to Part A of Interrogatory MMA/USPS-T30-18 where you state that you think that two delivery costs per originating piece are comparable "in some sense" even if some portion of the originating pieces does not incur delivery costs. Please assume that there are two categories of letters: Category A has a unit delivery cost per originating letter of 5 cents and Category B has a unit delivery cost per originating letter of 7 cents. The percentage of pieces that are actually delivered by city and rural carriers are different.

A. Which category of letters, A or B, costs more to deliver? Please explain your answer.

B. Now please assume that 60% of Category A letters are actually delivered by city and rural carriers while 90% of Category B letters are actually delivered by city and rural carriers. Under this assumption, please confirm that the unit cost to deliver letters in Category A is 8.3 cents and the unit cost to deliver letters in Category B is 7.8 cents. If you cannot confirm, please explain.

C. Under the assumption in Part (B), which category of letters, A or B costs more to deliver. Please explain your answer.

D. Please explain in what "sense" the unit delivery costs per originating piece are comparable.

Response

A. On a unit basis per originating letter, Category B letters cost more to deliver.

B. If your unit delivery costs are per delivered piece, then I confirm.

C. Per originating letter, Category B letters costs more to deliver. In terms of total cost, I cannot tell without knowing the originating volume for each category.

D. Unit delivery costs per originating piece are comparable since both are the ratios of volume variable delivery costs (cost segments 6, 7, and 10) to originating volume.

Response of Postal Service Witness Kelley to Interrogatories Posed by the Major Mailers Association

MMA/USPS-T30-28

Please refer to your response to Interrogatory MMA/USPS-T30-13. That interrogatory referred you to R2006-1 Library Reference USPS-LR-L-67, book *UDCModel.USPS.xls*, sheets 2.Summary TY and 11.Summary BY and your response to R2005-1 Interrogatory MMA/USPS-T16-13. You were then asked to provide a table, similar to the one you provided in R2005-1, showing delivery costs for First Class single piece letters with collection costs removed for R2006- 1 BY 2005 and TY 2008. Instead of providing the requested table, your response provided the results and instructions on how to derive them. As part of informal discussions to clarify your instructions, MMA received the attached table (MMA.13.rewrite.collect.xls) from USPS counsel.

A. Please confirm that the attached table was prepared by you or under your direction and supervision.

B. Please confirm that the table accurately shows, for R2006-1 BY 2005 and TY 2008, collection costs for First Class single piece letters, flats, and parcels, and the total and unit delivery costs without collection costs by shape.

Response

A. Confirmed.

B. Confirmed.

	6.1 Direct Labor (1)	6.2 Support Overhead (2)	6.2 Support Other (burdened on Office) (3)	6.2 Support Other (burdened on Letter Routes) (4)	6.2 Support Other (burdened on SPR Street) (5)	6.2 Support (6)	Total Segment 6 (7)	7.1 Delivery Activities Letter Routes (8)	7.1 Delivery Activities Special Purpose Routes (9)	7.1 Total Costs (10)	7.2 Support Activities Letter Routes (11)	7.2 Support Activities Special Purpose Routes (12)	Total Cost Segment 7 (13)	Total Cost Segments 6 and 7 (14)	Cost Segment 10	Total Piggyback	Volume	Unit Cost
BY06 First Class Single Piece Subclass Cost (000)	950,717	218,221	40,794	39,717	743	299,475	1,250,191	1,004,201	48,478	1,052,679	121,811	18,267	1,190,758	2,440,949	314,176	3,424,163	43,375,988	0.078941
BY06 First Class Single Piece Letters Cost (000) Collections Included	749,016	171,924	32,087	34,327	669	239,007	988,023	867,917	43,699	911,616	105,280	14,663	1,031,559	2,019,582	227,960	2,795,360	39,317,031	0.071096
BY06 First Class Single Piece Flats Cost (000) Collections Included	183,439	42,105	7,810	3,464	65	53,545	236,984	87,575	4,275	91,850	10,623	1,435	103,908	340,891	39,333	472,846	3,572,195	0.132388
BY06 First Class Single Piece Parcels Cost (000) Collections Included	18,262	4,192	787	1,926	9	6,923	25,185	48,709	504	49,213	5,908	169	55,291	80,476	46,685	155,959	486,762	0.320401
BY06 First Class Single Piece Subclass Collections Cost (000)	0		0	23,834	691	24,524	24,524	602,616	45,082	647,698	73,096	15,127.22	735,924	760,448	73,106	1,037,549	43,375,988	0.02392
BY06 First Class Single Piece Letters Cost (000) Collections Cost	0	0	0	21,425	623	22,047	22,047	541,703	40,646	582,348	65,709	13,638.63	661,696	683,744	57,228	922,887	39,317,031	0.023472
BY06 First Class Single Piece Flats Cost (000) Collections Cost	0	0	0	2,096	61	2,157	2,157	52,996	3,976	56,973	6,429	1,334.30	64,736	66,893	5,264	89,892	3,572,195	0.025164
BY06 First Class Single Piece Parcels Cost (000) Collections Cost	0	0	0	313	7	320	320	7,917	460	8,377	960	154.29	9,492	9,812	10,614	24,790	486,762	0.050926
BY06 First Class Single Piece Subclass Excluding Collections Cost (000)	950,717	218,221	40,794	15,883	52	274,950	1,225,667	401,585	3,396	404,981	48,713	1,140	454,834	1,680,501	241,072	2,386,614	43,375,988	0.055022
BY06 First Class Single Piece Letters Cost (000) Excluding Collections Cost	749,016	171,924	32,087	12,902	47	216,959	965,976	326,215	3,053	329,268	39,570	1,024	369,863	1,335,838	170,732	1,872,492	39,317,031	0.047625
BY06 First Class Single Piece Flats Cost (000) Excluding Collections Cost	183,439	42,105	7,810	1,368	5	51,388	234,827	34,579	299	34,877	4,194	100	39,172	273,999	34,069	382,863	3,572,195	0.107204
BY06 First Class Single Piece Parcels Cost (000) Excluding Collections Cost	18,262	4,192	787	1,613	1	6,603	24,864	40,792	45	40,836	4,948	15	45,799	70,664	36,271	131,169	486,762	0.269473
TY08 First Class Single Piece Subclass Cost (000)	860,074	208,887	39,049	38,018	711	286,665	1,166,738	961,248	46,405	1,007,652	118,801	15,571	1,139,624	2,306,364	302,841	3,276,116	38,185,732	0.085839
TY08 First Class Single Piece Letters Cost (000) Collections Included	693,361	164,570	30,714	32,658	641	228,784	922,144	830,793	41,829	872,623	100,777	14,036	987,435	1,909,580	219,517	2,675,500	34,594,330	0.077339
TY08 First Class Single Piece Flats Cost (000) Collections Included	168,809	40,304	7,572	3,315	63	51,254	221,063	83,829	4,092	87,921	10,169	1,373	99,463	320,526	37,676	450,310	3,143,109	0.143269
TY08 First Class Single Piece Parcels Cost (000) Collections Included	18,806	4,012	783	1,644	7	6,827	23,632	46,626	483	47,109	5,858	182	52,928	76,460	48,149	180,306	428,293	0.38094
TY08 First Class Single Piece Subclass Excluding Collections Cost (000)	860,074	208,887	39,049	15,204	50	263,189	1,143,264	384,408	3,251	387,659	46,679	1,091	435,379	1,578,643	232,143	2,272,001	38,185,732	0.05953
TY08 First Class Single Piece Letters Cost (000) Excluding Collections Cost	693,361	164,570	30,714	12,350	45	207,678	901,040	312,261	2,922	315,184	37,878	981	354,042	1,255,082	164,406	1,782,384	34,594,330	0.05152
TY08 First Class Single Piece Flats Cost (000) Excluding Collections Cost	168,809	40,304	7,572	1,306	4	49,19[illegible]	218,998	33,1[illegible]	286	33,385	4,015	98	37,498	256,495	32,607	363,310	3,143,109	0.11559
TY08 First Class Single Piece Parcels Cost (000) Excluding Collections Cost	18,805	4,012	783	1,544	1	8,320	23,225	39,047	42	39,090	4,738	14	43,840	67,066	34,920	128,236	428,293	0.29487

Response of Postal Service Witness Kelley to Interrogatories Posed by the Newspaper Association of America

NAA/USPS-T30-1: In Library Reference L-67, please refer to the sheet labeled UDCModel.USPS.xls, Distributed City Carrier In-Office Direct Costs Without Piggybacks." Please define the term "WSS-Saturation" as used therein. In particular, please state whether that definition is the same as the definition for saturation mail eligible to use detached address labels found in DMM Section 602.4.1.2.

Response

WSS-Saturation is a rate category within the subclass Enhanced Carrier Route (ECR). "ECRWSS" is the marking required on mail pieces that pay the ECR Saturation rate. WSS-Saturation, as it is used in the spreadsheet referenced in the question, refers to all shapes that qualify for the saturation rate. However, DMM Section 602.4.1.2 discusses the requirements for saturation flat mailings to be accompanied by Detached Address Labels (DALs). My understanding is that the ECR saturation density requirement is the same for letters and parcels as it is for flats (mailing must be delivered to either seventy-five percent of all addresses or ninety percent of residential addresses on a carrier route).

Response of Postal Service Witness Kelley to Interrogatories Posed by the Newspaper Association of America

NAA/USPS-T30-2: In Library Reference L-67, please refer to the sheet labeled *UDCModel.USPS.xls, Distributed City Carrier In-Office Direct Costs Without* Piggybacks." Please define the term "ECR Non-Saturation" as used therein.

Response

ECR Non-Saturation includes all rate categories within the subclass ECR other than Saturation. Specifically, ECR Non-Saturation, as used in the spreadsheet referenced in the question, includes the rate categories Basic, Automation Basic, and High Density within the subclass ECR.

Response of Postal Service Witness Kelley to Interrogatories Posed by the Newspaper Association of America

NAA/USPS-T30-3: Please confirm that in Library Reference L-67, the sheet labeled UDCModel.USPS.xls, Distributed City Carrier In-Office Direct Costs Without Piggybacks," High-Density mail would be considered "ECR Non-Saturation." If you cannot confirm, please explain why not.

Response

Confirmed.

Response of Postal Service Witness Kelley to Interrogatories Posed by the Newspaper Association of America

NAA/USPS-T30-4: Footnote 6 to your testimony references the testimony of Postal Service witness Thomas Shipe from Docket No. R90-1. Does your testimony rely on Mr. Shipe's testimony from that case for any other purpose than that for which footnote 6 is the citation?

Response

No.

Response of Postal Service Witness Kelley to Interrogatories Posed by the Newspaper Association of America

NAA/USPS-T30-5: Please refer to page 12, lines 3 through 6, of your testimony:
a. Please identify the "federal law" to which you refer.
b. Please explain why you choose to reduce your assumption of the number of rural route mailings that use simplified addresses from 20 percent to three percent, rather than by some other amount.
c. Please explain why no corresponding adjustment is made for city carrier costs.

Response

a. The federal law I referred to in my testimony was the DECEPTIVE MAIL PREVENTION AND ENFORCEMENT ACT, Public Law 106-168, amending 39 U.S.C. § 3001.

b. In the instant docket, I reduced my estimate of DALs with simplified addresses based on three factors: 1) the federal law referenced in my response to part a.; 2) the magnitude of DALs impacted by the law referenced in part a.; and 3) several field visits to rural post offices, which produced very few observations of DALs with simplified addresses.

c. No adjustment was made for city carrier costs because simplified addresses are not permitted for ECR mail delivered on city routes.

Response of Postal Service Witness Kelley to Interrogatories Posed by the Newspaper Association of America

NAA/USPS-T30-6: Please refer to page 2, lines 7-12 of your testimony. You state that your testimony "updates the analyses done in library reference USPS-LR-K-67 in Docket No. R2005-1."
a. Please confirm that you were the witness responsible for USPS-LR-K-67 in Docket No. R2005-1.
b. Please confirm that in USPS-LR-K-67_Revised.xls, cells G67, G68, and G69 of worksheet "Table 1," you estimated flats delivery costs for Standard ECR Basic, High Density, and saturation separately.
c. Please confirm that in USPS-LR-L-67, cells G45 and G46 in worksheet "1.Table 1" of workbook "UDCModel.USPS.xls", you do not estimated costs for Standard ECR and High Density ECR separately, but instead include them in "ECR Non-Saturation."
d. If you cannot confirm (b) or (c), please explain why not.
e. Why did you change the way in which you estimated carrier delivery costs?
f. Please provide separate estimates of unit delivery costs for Standard ECR Basic and High Density in the manner that you presented them in Docket No. R2005-1.

Response

a. Confirmed.

b. Confirmed.

c. Partially confirmed. The cell references in Table 1 of UDC.Model.USPS.xls are C45 and G45 for ECR Non-Saturation letters and flats respectively.

d. Not applicable.

e. After discussions with rate design personnel, it was made clear to me that aggregated ECR Non-Saturation unit delivery costs, as presented in USPS-LR-L-67, were sufficient for their purposes. As a result, I decided to combine all of the ECR Non-Saturation rate categories, by shape, into average unit delivery costs.

f. The requested unit delivery costs are contained in the table below.

Response of Postal Service Witness Kelley to Interrogatories Posed by the Newspaper Association of America

Rate Category	**TY08 Unit Delivery Cost (Cents)**
ECR Basic Flats	7.325
ECR High Density Flats	5.303

Response of Postal Service Witness Kelley to Interrogatories Posed by the Newspaper Association of America

NAA/USPS-T-30-7: Please refer to "Table 1: Test Year Unit Delivery Costs" in your testimony and to Table 1: Test Year FY2006 Unit Delivery Costs from your 2005 testimony (Docket No. R2005-1, USPS-T-16, second revision). Note that the unit delivery cost for Standard Enhanced Carrier Route High Density flats was estimated at 4.609 cents in your 2005 testimony as revised.
a. Please confirm that in your testimony in this case, the Test Year unit delivery costs for Standard ECR High-Density mail are included in "ECR Non-Saturation flats." If you cannot confirm, please explain where such a figure is presented.
b. Please confirm that the Test Year unit delivery cost for Standard "ECR Non-Saturation" flats in your testimony is estimated to be 7.083 cents.
c. Please confirm that the estimated unit delivery costs for Standard ECR High Density mail has increased from 4.609 cents in your R2005-1 testimony (where presented separately) to 7.083 cents in your current testimony (as part of "Non-Saturation"), an increase of 2.474 cents.
d. Please identify the source(s) of the cost increase in (c).
e. Please explain why estimated delivery costs for Standard ECR High Density flats have increased by 2.474 cents while the estimated unit delivery costs for Standard Basic and saturation flats have increased by only 0.94 cents and 1.05 cents respectively. In particular, what factors unique to High Density flats would cause such a disproportionate increase in cost?

Response

a. Confirmed.

b. Confirmed.

c. Not Confirmed.

d. The unit delivery costs I was asked to evaluate in part c. of this question are not comparable. A valid comparison can be made from the unit delivery cost of ECR High Density flats from the previous docket to the instant docket. In R2005-1 the unit delivery cost was 4.609 cents and, as shown in the table below, it is 5.303 cents in the instant docket. The difference between the two unit costs is approximately 0.7 cent, which is explained by the 0.3 cent higher unit casing costs for base year 2005 as compared with 2004. After in-office support and piggybacks are applied to the higher casing costs, it accounts for 0.6 cent of the

0.7 cent difference in unit delivery costs. The difference in rural costs explains the remaining 0.1 cent difference between the two unit delivery costs.

e. Since the table below shows that the unit delivery costs for ECR High Density flats has not risen more than either ECR Basic or Saturation flats, your question is no longer applicable.

Rate Category	**TY08 Unit Delivery Cost (Cents)**	**TY06 Unit Delivery Cost (Cents)**	**Difference TY08-TY06**	**Change**
ECR Basic Flats	7.325	6.143	1.182	19%
ECR High Density Flats	5.303	4.609	0.694	15%
ECR Saturation Flats	5.213	4.163	1.050	25%

NAA/USPS-T30-8:
Please refer to your response to NAA/USPS-T30-6(f), and to city and rural delivery costs as provided in USPS-LR-L-67, UDCModel.USPS, tab "2.summary TY". In your response to NAA/USPS-T-30-6(f) you provided deaveraged unit delivery costs for ECR Basic flats and ECR High Density flats. Please provide delivery costs for ECR Basic, High Density, and Saturation letters and flats that are disaggregated between city and rural delivery.

Response

The two tables below have the requested information.

ECR Letters	TY Volume (000)	TY City Costs (000)	TY Rural Costs (000)	TY Unit City Cost (Cents)	TY Unit Rural Costs (Cents)	TY Unit Delivery Cost (Cents)
Basic	4,143,769	$149,959	$65,279	3.619	1.575	5.194
High Density	660,947	$ 20,191	$ 6,900	3.055	1.044	4.099
Saturation	4,488,066	$115,329	$28,497	2.570	0.635	3.205

ECR Flats	TY Volume (000)	TY City Costs (000)	TY Rural Costs (000)	TY Unit City Cost (Cents)	TY Unit Rural Costs (Cents)	Unit Delivery Cost (Cents)
Basic	13,893,961	$687,805	$329,933	4.950	2.375	7.325
High Density	1,886,024	$67,134	$ 32,882	3.560	1.743	5.303
Saturation	10,926,055	$334,231	$235,311	3.059	2.154	5.213

NAA/USPS-T30-9:
Please provide separate city and rural volume data for each of the rate categories of ECR flats mail.

Response

The table below has the requested information

ECR Flats	BY CCCS Volume[1] (000)	BY RCCS Volume[1] (000)
Basic	8,187,589	4,473,693
High Density	1,092,988	452,715
Saturation	6,101,575	1,518,533

[1]Volumes in this table reflect the base year estimates from the respective carrier cost systems. However, the delivery costs for ECR Flats in USPS-LR-L-67 are derived using the costs from these delivered volumes along with the costs from the crosswalked parcels (discussed in direct testimony USPS-T-30 page 15) and distributing rural boxholder volume (not included in table) to flats which is done using the RPW proportions.

NAA/USPS-T30-10:
Please refer to USPS-LR-L-67, workbook UDCInputs.USPS.xls, tab "TYVol".
a. Please confirm that the source of Column D, "TY 2008 BR Pieces" can be found in USPS-LR-L-66, workbook vf_ar.xls, tab "Attachment A". If you do not confirm, please advise on the source of the data.
b. Please confirm that the source of cell D11 in "TYVol" is cell T7 in "Attachment A". If you do not confirm, please advise on the source of the data.
c. Please confirm that the source of cell D12 in "TYVol" is cell T8 in "Attachment A". If you do not confirm, please advise on the source of the data.
d. Please confirm that the source of cell D15 in "TYVol" is cell T41 in "Attachment A". If you do not confirm, please advise on the source of the data.
e. Please confirm that the source of cell D17 in "TYVol" is cell T58 in "Attachment A". If you do not confirm, please advise on the source of the data.
f. Please confirm that the source of cell D18 in "TYVol" is cell T45 in "Attachment A". If you do not confirm, please advise on the source of the data.

Response

a. Confirmed.

b. Confirmed.

c. Confirmed.

d. Confirmed.

e. Not Confirmed. Cell D17 of "TYVol" includes commercial and non-profit ECR. Therefore, it equals the sum of cells T58 and T87 in workbook vf_ar.xls tab "Attachment A".

f. Not confirmed. Not Confirmed. Cell D17 of "TYVol" includes commercial and non-profit Standard Regular. Therefore, it equals the sum of cells T45 and T74 in workbook vf_ar.xls tab "Attachment A".

RESPONSE OF POSTAL SERVICE WITNESS KELLEY (USPS-T-30) TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 3

1. In USPS-LR-L-67, witness Kelley refers to an IOCS SAS dataset called TALLY05V2.SAS7BDAT stating that this dataset was filed in USPS-LR-L-9. The Postal Service has not filed TALLY05V2.SAS7BDAT as part of its Library Reference USPS-LR-L-9. Please provide a PC-executable copy of TALLY05V2.SAS7BDAT, the contents of which should match the number of observations and variables the Postal Service has already filed as PRCSAS05.ZIP in USPS-LR-L-9.

RESPONSE:

The IOCS SAS dataset TALLY05V2.SAS7BDAT was a preliminary SAS dataset of what was filed in R2006-1 as part of USPS-LR-L-9. The final IOCS SAS data set which was filed with R2006-1 is PRCSAS05.SAS7BDAT, which is included in PRCSAS05.ZIP as part of USPS-LR-L-9. The PC-SAS program **AnalysisHQ103FY05.CARMM.CasingV4.sas** filed as part of the revised USPS-LR-L-67 runs with the filed IOCS SAS dataset PRCSAS05.SAS7BDAT. This PC-SAS program replaces **AnalysisHQ103FY05.CARMM.CasingV2.sas**, which was filed with the original USPS-LR-L-67, pages 13 through 33.

RESPONSE OF POSTAL SERVICE WITNESS KELLEY (USPS-T-30) TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 3

2. On page 5 of USPS-T-30, witness Kelley states, "I assume that ten percent of DPS letters do require casing ... ." In the workbook UDCInputs.USPS tab "Inputs" the source for this figure is listed as "DAR." Does this refer to a Decision Analysis Report? If so, please provide the germane pages. If not, please otherwise define "DAR" and provide supporting documentation for the assumption that 10% of DPS letters require casing.

RESPONSE:

The contents of the cell referenced in the question are incorrect. The contents of the cell referenced in the question will be deleted as part of the revised USPS-LR-L-67. As is described in my direct testimony on page 5 line 15, USPS-LR-L-67 does assume that ten percent of DPS letters require casing. The justification for this assumption is explained in my testimony and is based on consultations with delivery operations personnel. The estimate is judgmental, there is no empirical documentation to provide.

RESPONSE OF POSTAL SERVICE WITNESS KELLEY (USPS-T-30) TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 3

3. A number of SAS programs and their Excel output spreadsheets have been listed in USPS-LR-L-67. A printout of the SAS programs is also included in the same library reference. Please provide PC-executable copies of the SAS programs and the related spreadsheets listed on page 6 of USPS-LR-L-67 since these files were not included in the initial filing. Please provide documentation of all variables not already included in USPS-LR-L-9, and either provide program flow charts using new file names, or provide a chart showing the correspondence of old file names with the new PC-executable file names.

RESPONSE:

In conjunction to the response to this question, a revised USPS-LR-L-67 will be filed. The revised version includes a PC executable version of the SAS program **AnalysisHQ103FY05.CARMM.CasingV4.sas**, which replaces **AnalysisHQ103FY05.CARMM.CasingV2.sas** that was discussed in the initial version of USPS-LR-L-67. The SAS program had to be modified to run on the IOCS SAS dataset PRCSAS05.SAS7BDAT that was filed with USPS-LR-L-9

The SAS program **AnalysisHQ103FY05.CARMM.CasingV4.sas** performs a similar function to the SAS program ALBCARMM filed with USPS-LR-L-9. The modifications made to **AnalysisHQ103FY05.CARMM.CasingV4.sas** so that it can produce the results needed for USPS-LR-L-67 from USPS-LR-L-9 are described below.

The first modification is how the variable 'rgroup' is defined. USPS-LR-L-67 has three route groups, 1) letter routes (rgroup=1), 2) special purpose routes (rgroup=2), and 3) route 99 (rgroup=3). The SAS program ALBCARMM only distinguishes between two route groupings (rgroup = 1 or rgroup = 2) as described in USPS-LR-L-9.

Secondly, **AnalysisHQ103FY05.CARMM.CasingV4.sas** summarizes costs for casing activities. 'General Casing' is defined as one of the three activities: 1) 'A' – Preparing Mail for Sequencing / Loading Ledges; 2) 'B' Sequencing/Casing Mail; or 3)

RESPONSE OF POSTAL SERVICE WITNESS KELLEY (USPS-T-30) TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 3

'C' Withdrawing/Pulling Down Mail/Strapping Out Mail (From Carrier Case). 'Pure Casing' is defined as costs associated strictly with activity 'B' Sequencing/Casing Mail.

Lastly, ECR tallies are labeled by rate category. ECR Saturation tallies are further defined as DAL and non-DAL. If the carrier is handling a DAL then these are DAL tallies. If the carrier is handling other ECR Saturation pieces, including host pieces of DAL mailings and addressed ECR Saturation pieces then these are non-DAL tallies.

The PC-SAS program **AnalysisHQ103FY05.CARMM.CasingV4.sas** gives the 'general casing' and 'pure casing' costs by ECR rate category for the three route groups as defined previously (variable rgroup).

The revised version of USPS-LR-L-67 also contains a PC-executable version of the SAS macros **macMxmail.sas** which is identical to the Word Version that was filed on page 33 of USPS-LR-L-67. Along with the macros, the comma delimited (CSV) file MxMailCodeFY05SPC.csv has also been included which is an input to the SAS macros **macMxmail.sas**.

The revised version of USPS-LR-L-67 also contains three new workbooks. They are the following: 1) CARMM05_KLDetail_3RGrpAll.xls; 2) CARMM05_KLDetail_3RGrpCasing.xls; and 3) CARMM05_KLDetail_3RGrpCasingPure.xls. These are the workbooks that are listed on page 6 of the original version of USPS-LR-L-67.

Each workbook listed in the preceding paragraph consists of four worksheets named the following: 1) 'SumbyClassCode'; 2) 'PivotTable'; 3) 'CARMMDetail'; and 4) 'Lookup'.

RESPONSE OF POSTAL SERVICE WITNESS KELLEY (USPS-T-30) TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 3

The output of the SAS program is contained in the first eight columns of the 'CARMMDetail' worksheet. Columns nine and ten consist of formulas based on the 'Lookup' worksheet. The worksheet named 'PivotTable' summarizes the output data in 'CARMMDetail' that is used in USPS-LR-L-67 workbook **UDCInputs.xls** (worksheets 'CARMM', 'CARMMECR' , 'CARMMCasing, and 'CARMMNewCasing'). The worksheet 'SumByClassCode' summarizes the output data by the variable ClassCode.

The mapping from the newly filed worksheets to the worksheets within **UDCInputs.xls** is the following: **CARMM05_KLDetail_3RGrpAll.xls** provides data to worksheets ***CARMM*** *and* ***CARMMECR***; **CARMM05_KLDetail_3RGrpCasingGeneral.xls** provides data to worksheets **CARMMCasing** and **CARMMECR**; and **CARMM05_KLDetail_3RGrpCasingPure.xls** provides data to worksheet **CARMMNewCasing**.

RESPONSE OF POSTAL SERVICE WITNESS KELLEY TO POIR NO. 5

Table 1

	Volume (000)	A Letters	B Flats	C Parcels
1	**RPW**	159,750	8,908,484	1,769
2	**RCS (without boxholder)**	117,215	2,721,016	5,434
3	**CCS**	233,294	5,211,119	32,035
4	**Ratio of RCS to RPW**	0.239		0.255
5	***RCS Adjusted with Boxholder***	38,224	2,810,948	452
6	**Ratio of CCS to RPW**	0.550		0.499
7	**CCS Adjusted**	87,800	5,387,766	883
8	**Delivered Volume**	126,023	8,198,714	1,335
9	**Ratio of Delivered to RPW**	0.7889	0.9203	0.7547

From Workbook "VolAdj.USPS.xls"

1	=PeriodicalsVolAdj!C9-11		
2	=PeriodicalsVolAdj!G9-11		
3	=PeriodicalsVolAdj!D9-11		
4	=LetterVols!G9	=ParcelVols!I15	
5	=PeriodicalsVolAdj!H9-11+'8.RuralCrosswalk'!G12,K12,N12		
6	=LetterVols!F9	=ParcelVols!H15	
7	=PeriodicalsVolAdj!E9-11		

12. Please confirm (if not confirmed, please explain):

a. The Periodical volumes in line 3, "CCS," are used in the B workpapers' Cost Segment 6 and 7 distribution key, which distributes volume variable costs by shape, to class and subclass.

b. The Periodical volumes in line 7, "CCS Adjusted," are developed in USPS-LR-L-67 and used in conjunction with the Periodical Volumes in line 3 ("CCS") to redistribute the existing CCS class costs (developed in part a.) by shape within the class.

c. The Periodical volumes in line 2, "RCS (without boxholder)," are used in the B workpapers' Cost Segment 10 distribution key, which distributes volume variable costs by shape, to class and subclass.

d. The Periodical volumes in line 5, "RCS Adjusted with Boxholder" are developed in USPS-LR-L-67 and used in conjunction with the Periodical Volumes in line 2 ("RCS") to redistribute the existing RCS class costs (developed in part b.) by shape within the class.

Response

I am assuming that this question refers to information in Table 1.

b. Confirmed.

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d. Confirmed.

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13. Please confirm (if not confirmed, please explain):

a. The ratio of RCS to RPW Letters, where the volumes in the numerator and the denominator are the sum of piece volumes for "Total First-Class Single Piece, Priority, Standard, and Free/US Postal Service" (as measured by the RCS and RPW, respectively), is used to develop "RCS Adjusted" Letter Volume by multiplying this ratio by the RPW Periodical Letter Volume.

b. The ratio of CCS to RPW Letters, where the volumes in the numerator and the denominator are the sum of piece volumes for "Total First-Class Single Piece, Priority, Standard, and Free/US Postal Service" (as measured by the CCS and RPW, respectively), is used to develop "CCS Adjusted" Letter Volume by multiplying this ratio by the RPW Periodical Letter Volume.

c. The ratio of RCS to RPW Parcels, where the volumes in the numerator and the denominator are the sum of piece volumes for "Total First-Class Single Piece, Priority, Post-Crosswalk Standard Regular, Bound Printed Matter, Zone Rate Parcels, Media Mail, and Free/US Postal Service Mail" (as measured by the RCS and RPW, respectively), is used to develop "RCS Adjusted" Parcel Volume by multiplying this ratio by the RPW Parcel Volume.

d. The ratio of CCS to RPW Parcels, where the volumes in the numerator and the denominator are the sum of piece volumes for "Total First-Class Single Piece, Priority, Post-Crosswalk Standard Regular, Bound Printed Matter, Zone Rate Parcels, Media Mail, and Free/US Postal Service Mail" (as measured by the CCS and RPW, respectively), is used to develop "CCS Adjusted" Parcel Volume by multiplying this ratio by the RPW Parcel Volume

e. The difference in volume between cells A3 and A7 is shifted from Letters to Flats. The difference in volume between cells A2 and A5 is shifted from Letters to Flats.

f. The difference in volume between cells C3 and C7 is shifted from Parcels to Flats. The difference in volume between cells C2 and C5 is shifted from Parcels to Flats.

Response

I am assuming that this question relates to Table 1 provided with the POIR, which for purposes of this POIR response is attached to my response to item 12.

a. Confirmed.

b. Confirmed.

c. Confirmed.

**RESPONSE OF POSTAL SERVICE WITNESS KELLEY
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d. Confirmed.

e. Not confirmed. The difference in volume between cells A3 and A7 represents the city volume that is shifted from letters to flats. However, the difference between A2 and A5 does not represent the rural volume shift from letters to flats. Row 5 in the table includes boxholder volume which is distributed to shape in the same proportion as originating volume. For Periodical letters, 105 of the total Periodical boxholder volume from RCCS is distributed to Periodical letters. Subtracting 105 from the figure in the table, 38,224, equals 38,119. The amount of Periodical volume shifted from letters to flats is found by subtracting 38,119 from 117,215 which equals 79,097. That figure is contained in cell I9 of worksheet VolAdj.USPS.xls in USPS-LR-L-67.

f. Not confirmed. The difference in volume between cells C3 and C7 represents the city volume that is shifted from parcels to flats. However, the difference between C2 and C5 does not represent the rural volume shift from parcels to flats. Row 5 in the table includes boxholder volume which is distributed to shape in the same proportion as originating volume. For Periodical parcels, 1 of the total Periodical boxholder volume from RCCS is distributed to Periodical parcels. Subtracting that amount from the figure in the table, 452, equals 451. The amount of Periodical volume shifted from parcels to flats is found by subtracting 451 from which equals 4,983. That figure is contained in cell I11 of worksheet VolAdj.USPS.xls in USPS-LR-L-67.

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14. When developing the RCS/RPW and CCS/RPW ratios, please explain the rationale for including or excluding the volumes of each subclass. Please focus the response on the shared characteristics (e.g., the percentage of mail delivered) between the included volumes and Periodicals.

Response

I am assuming that this question relates to Table 1 provided with the POIR, which for purposes of this POIR response is attached to my response to item 12.

The ratios in rows four and six of column A in Table 1 that were used to determine the magnitude of the Periodical volume shift from letters to flats were derived by taking the average ratio of delivered letters, separately by carrier system, to originating letters across several subclasses of mail. However, due to the magnitude of the volumes of the subclasses considered, the ratio was, essentially, a weighted average of the ratio of delivered volume to originating volume for Standard Mail and First Class Single Piece, with Standard Mail bearing a heavier influence on the ratio due to its greater volume. My belief is that the delivery characteristics of Standard letters are a better proxy for Periodical letters than First Class Single Piece letters, but absent specific data on the issue, I was not comfortable using only the volume for Standard letters in deriving the ratios in rows four and six of column A of Table 1.

The ratios in rows four and six of column C in Table 1 that were used to determine the magnitude of the Periodical volume shift from parcels to flats were derived by taking the average ratio of delivered parcels, separately by carrier system, to originating parcels across several subclasses of mail. Since the originating volume of Periodical parcels is so small with respect to other classes, I found it difficult to compare the delivery characteristics of Periodical parcels with any specific subclass of mail. Therefore, I

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thought it would be reasonable to use the average, weighted by subclass volume, of *delivered volume to originating volume*.

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15. Please explain why, using the adjusted volumes found in lines 5 and 7, the ratios of Delivered Volume to RPW for Letters and Parcels are 13.1% and 16.6% smaller, respectively, than the ratio for Flats. Please focus on the specific manner in which these shapes' characteristics cause this difference.

Response

I am assuming that this question relates to Table 1 provided with the POIR, which for purposes of this POIR response is attached to my response to item 12.

The ratios in rows four and six of Table 1 that determined the magnitude of the volume adjustment from Periodical letters to flats and from Periodical parcels to flats were applied without the constraint of making the post-crosswalked ratios of delivered volume to originating volume, as shown in row 9 of Table 1, equal across shapes. Given that I had no specific data addressing this issue, I could find no justification for applying a condition that would result in equal ratios of delivered volumes to originating volumes in the subclasses receiving adjustments, such as Periodicals, but not for other subclasses which did not receive a volume adjustment.

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16. USPS-T-30 at page 15, beginning at line 6 states that "[S]ince the costs and volumes are derived from different systems, the possibility exists that the estimated aggregate volume from CCS, which provides a distribution key for cost segment 7 and 10 costs, exceeds the estimated total originating volume. This is an incongruous result since it leads to the conclusion that more mail from a specific rate category is delivered on city and rural routes than was mailed. USPS-LR-L-67 handles this situation by transferring costs from cost segments 6, 7, and 10 from the rate category with the anomalous estimated volume to a rate category that does not have this situation. In practical terms, the volume variable cost segment 6, 7, and 10 costs are generally transferred from parcels to flats within a particular category of mail..." (Footnote omitted.)

a.. Please confirm that the statement quoted above is the rationale behind the shifts of volumes of parcels to flats. If not, please explain fully.

b..If so, please identify the reasons that the RCCS and CCCS surveys cause this type of discrepancy (e.g., mistaking flats for parcels).

c. Please explain if, and how, the above statement also applies to the letter to flat volume shift.

d.. If the above statement applies to the letter to flat volume shift, please identify the reasons that the RCCS and CCCS surveys cause this type of discrepancy (e.g., mistaking flats for letters).

e. Would you agree that the ODIS/RPW survey generally produces more reliable results than the RCCS and CCCS surveys? Please discuss measures taken to evaluate the reliability of RCCS and CCCS volume estimates when the delivered volume is not higher than the originating volume (e.g., parcel crosswalk).

Response

a. Confirmed.

c. Yes the above statement applies to letter to flat volume shift. Since the aggregated estimated Periodical volume of letters from the city and rural carrier systems exceeded the originating volume, a crosswalk was developed to shift letters to flats.

RESPONSE OF POSTAL SERVICE WITNESS KELLEY TO POIR NO. 5

Table 2

	A	B	C	D	E	F	G
	DPS Letters	Sec Seg Letters	Other Letters	Flats Del	Parcels Del		
1 Periodical Volume (000)	15,602	1,890	99,723	2,721,016	5,434		
	DPS	Sec Seg	Letters	Flats	Parcels		
2 Periodical Cost (000)	243	84	4,495	144,278	1,538		
3 Unit Cost	0.0156	0.0442	0.0451	0.0530	0.2831		
	dLet/rDps	dLet/rSS	dFlat/rFlat	dFlat/rFlat	dPar/dPar	dFlat/rLet	dFlat/rPar
4 Periodical Volume (000)	15,602	1,890	20,626	2,721,016	451	79,097	4,983
5 Periodical Cost (000)	243	84	930	144,278	128	3,565	1,411
6 Unit Cost	0.0156	0.0442	0.0451	0.0530	0.2831	0.0451	0.2831
1	USPS-LR-L-5						
	File		"I-Forms.xls"				
	Worksheet		"I-CS10.RCS"				
2-3	USPS-LR-L-67						
	File		"UDCModel.USPS.XLS"				
	Worksheet		"6.Rural Cost"				
4-6	USPS-LR-L-67						
	File		"UDCModel.USPS.XLS"				
	Worksheet		"8.Rural Crosswalk"				

17. Please confirm, with respect to the above table, the following (If not confirmed, please explain fully):
    a. The volumes in A1-E1 are the Periodical Volumes (as measured by the RCCS) used in Cost Segment 10 to distribute shape costs to subclass.
    b. The costs in A2-E2 are those found in CS10, worksheets 10.1.2 and 10.2.2.
    c. The unit costs in A3-E3 are those developed by the RCCS, used in conjunction with the volumes found in A1-E1 to develop the CS10 costs found in A2-E2.
    d. The volumes in A4-E4 are the Periodical Volumes found in the "8.Rural Crosswalk" sheet, file UDCMODEL.USPS in LR-L-67, correlating to the volume shift described earlier.
    e. The letters shifted to flats are considered "Other Letters," and the cost shift, per unit, is the "Other Letter" unit cost.
    f. The parcels shifted to flats are considered "Parcels," and the cost shift, per unit, is the "Parcels" unit cost.

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Response

c. Not confirmed. The cost segment 10 costs are not derived using the unit costs in Table 2. The costs are calculated in cost segment 10 are distributed to subclass within each compensation category based on the volumes from RCCS. After the cost segment 10 costs are distributed to subclass, USPS-LR-L67 calculates the unit costs as shown in Table 2.

d. Confirmed.

e. Confirmed.

f. Confirmed.

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18. Please explain:

a. why pieces moved from Letters to Flats (see question 17.e.) incur costs as "Other Letters;"
b. why pieces moved from Parcels to Flats (see question 17.f.) incur costs as "Parcels."

Response

I am assuming that this question relates to Table 2 provided with the POIR, which for purposes of this POIR response is attached to my response to item 17.

a. The Rural Carrier Cost System (RCCS) records mail volume by compensation category rather than shape. The data collectors record sampled pieces in accordance with the rules used for the Rural Carrier Mail (RMC) counts which are utilized to compensate rural carriers. The shifted volume from letters to flats represents an estimate of the number of pieces that were recorded in the compensation category "Other Letters" by RCCS but qualified as flats according to the DMM definition of flats.

The reason I used the "Other Letter" unit cost to shift the costs is that I assumed that RCCS accurately captures the delivery cost consequences of sampled pieces. In this instance, for each shifted piece, presumably, the rural carrier was compensated for either a "DPS Letter", "Sector Segment Letter", or "Other Letters". Since "DPS" and "Sector Segment Letters" are automated and are designed to run on barcode sorters, I concluded that pieces recorded as "Other Letters" as opposed to "DPS" or "Sector Segment" letters had the dimensions that qualified them as flats according to the DMM. Therefore, the shifted rural Periodical volume from letters to flats came from volume contained in the "Other Letter compensation category.

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b. The Rural Carrier Cost System (RCCS) records mail volume by compensation category rather than shape. The data collectors record sampled pieces in accordance with the rules used for the Rural Carrier Mail (RMC) counts which are used to compensate rural carriers. The shifted parcel to flat volume represents an estimate of the number of pieces that were recorded in the compensation category "Parcels Delivered" by RCCS but qualified as flats according to the DMM definition of flats.

The reason I used the unit costs for "Parcels" to shift the cost is that I assume that RCCS accurately captures the delivery cost consequences of sampled pieces. For each piece that was moved from parcels to flats, the rural carrier was compensated for that piece at the parcel rate. Therefore, since each shifted piece actually incurred parcel delivery costs equal to the corresponding unit parcel cost in the table, that cost was shifted to flats in deriving unit delivery costs.

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19. Please provide, for cost segments 6 and 7, a table similar to Table 2, as well as a rationale behind the cost shifts.

Response

I am assuming that this question relates to Table 2 provided with the POIR, which for purposes of this POIR response is attached to item 17.

The objective of USPS-LR-L-67 is to calculate accurate delivery costs by rate category. This involves both the shape – letter, flat, or parcel – and the content of the mail. The denominator for all of the unit delivery costs is the total originating volume for that rate category. However, the costs are largely dependent on the volumes recorded from the city and rural carrier cost systems (CCS). Since the costs and volumes are derived from different systems, the possibility exists that the estimated aggregate volume from CCS, which provides a distribution key for cost segment 7 and 10 costs, exceeds the estimated total originating volume. Some of the reasons for this occurring are contained in response to POIR No 5. question 16 (b). Regardless of the specific reasons, I think it is important to account for this result by making a reasonable adjustment to the costs for the rate categories affected.

Specifically, for Periodical letters and parcels, CCCS estimates base year volumes of 233,294 letters and 32,035 parcels, as compared with the estimates from RPW of 159,750 letters and 1,769 parcels. I concluded that deriving the unit delivery costs based on unadjusted volumes would place too much cost burden on letters and parcels and consequently lower the flats unit delivery cost. In an effort to develop a unit delivery cost with costs in the numerator consistent with the volumes in the denominator, I made the volume and cost adjustments that are used in USPS-LR-L-67 and that are summarized in

RESPONSE OF POSTAL SERVICE WITNESS KELLEY
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the attached spreadsheet.

The attached spreadsheet shows that $7.42 million were shifted from Periodical letters to flats, and that $7.36 million were shifted from parcels to flats. Since city costs are not derived with different costs pools for DPS and 'Other' letters, no distinction needed to be made with regard to the cost of the type of letter that was shifted to flats. City parcel costs, however, are divided between small and large parcels. After the magnitude of the shift is determined, as many small parcels, up to the estimated volume, are shifted from small parcels to flats Then the remaining volume, if any, that needs to be shifted comes from the CCCS large parcel volume. The justification for this approach is that it seems much more likely that pieces recorded as small parcels have dimensions that qualify as flats according to the DMM. For Periodicals, the shift results in 23,343 small parcels and 7,909 large parcels which corresponded to $7.36 million in segment 6 and 7 costs being shifted to flats.

Line No		Letter (includes DPS)	Flat	Small Parcel	Large Parcel	Total Parcels	Total Volume
(1)	Periodical Volume (000) (Unadjusted)	233,294	5,211,119	23,243	8,792	32,035	5,476,448
(2)	Periodical Volume (000) (Adjusted)	87,800	5,387,766	-	883	883	5,476,448
(3)	Volume Difference	(145,494)	176,647	(23,243)	(7,909)	(31,152)	-

		6.1 Direct Labor (1)	6.2 Support Overhead (2)	6.2 Support Other (burdened on Office) (3)	6.2 Support Other (burdened on Letter Routes) (4)	6.2 Support Other (burdened on SPR Street) (5)	6.2 Support (6)	Total Segment 6 (7)	7.1 Delivery Activities Letter Routes (8)	7.1 Delivery Activities Special Purpose Routes (9)	7.1 Total Costs (10)	7.2 Support Activities Letter Routes (11)	7.2 Support Activities Special Purpose Routes (12)	Total Cost Segment 7 (13)	Total Cost Segments 6 and 7 (14)
	Periodical Subclass Cost (000)	$ 259,620	$ 59,591	$ 11,140	$ 4,459	$ 68	$ 75,258	$ 334,878	$ 112,742	$ 4,447	$ 117,189	$ 13,876	$ 1,492	$ 132,357	$ 467,235
	Periodicals Letters Cost (000) Unadjusted	$ 5,281	$ 1,212	$ 227	$ 168	$ 3	$ 1,809	$ 6,890	$ 4,243	$ 189	$ 4,432	$ 515	$ 64	$ 5,010	$ 11,900
	Periodicals Flats Cost (000) Unadjusted	$ 253,279	$ 58,136	$ 10,868	$ 4,077	$ 65	$ 73,145	$ 326,425	$ 103,080	$ 4,231	$ 107,312	$ 12,504	$ 1,420	$ 121,235	$ 447,660
	Periodicals Parcels Cost (000) Unadjusted	$ 1,060	$ 243	$ 45	$ 214	$ 0	$ 503	$ 1,563	$ 5,419	$ 26	$ 5,445	$ 657	$ 9	$ 6,111	$ 7,674
	Periodicals Small Parcels Cost (000) Unadjusted								$ 3,062	$ 19	$ 3,081	$ 371	$ 6	$ 3,458	$ 3,458
	Periodicals Large Parcels Cost (000) Unadjusted								$ 2,357	$ 7	$ 2,364	$ 286	$ 2	$ 2,653	$ 2,653
	Periodical Subclass Cost (000)	$ 259,620	$ 59,591	$ 11,140	$ 4,459	$ 68	$ 75,258	$ 334,878	$ 112,742	$ 4,447	$ 117,189	$ 13,876	$ 1,492	$ 132,357	$ 467,235
	Periodicals Letters Cost (000) Adjusted	$ 1,987	$ 456	$ 85	$ 63	$ 1	$ 606	$ 2,593	$ 1,597	$ 71	$ 1,668	$ 194	$ 24	$ 1,886	$ 4,479
	Periodicals Flats Cost (000) Adjusted	$ 257,603	$ 59,128	$ 11,053	$ 4,386	$ 67	$ 74,635	$ 332,238	$ 110,908	$ 4,375	$ 115,283	$ 13,452	$ 1,468	$ 130,205	$ 462,443
	Periodicals Parcels Cost (000) Adjusted	$ 29	$ 7	$ 1	$ 9	$ 0	$ 17	$ 47	$ 237	$ 1	$ 237	$ 29	$ 0	$ 266	$ 313
	Periodicals Small Parcels Cost (000) Adjusted								$ -	$ -	$ -	$ -	$ -	$ -	
	Periodicals Large Parcels Cost (000) Adjusted								$ 237	$ 1	$ 237	$ 29	$ 0	$ 266	
	Cost Difference (adjusted - unadjusted)														
	Periodical Subclass Cost (000)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
	Periodicals Letters Cost (000) Adjusted	$ (3,293)	$ (756)	$ (141)	$ (105)	$ (2)	$ (1,004)	$ (4,297)	$ (2,646)	$ (118)	$ (2,764)	$ (321)	$ (40)	$ (3,125)	$ (7,422)
	Periodicals Flats Cost (000) Adjusted	$ 4,324	$ 992	$ 186	$ 310	$ 2	$ 1,490	$ 5,814	$ 7,828	$ 143	$ 7,972	$ 950	$ 48	$ 8,969	$ 14,783
	Periodicals Parcels Cost (000) Adjusted	$ (1,031)	$ (237)	$ (44)	$ (205)	$ (0)	$ (486)	$ (1,517)	$ (5,182)	$ (25)	$ (5,208)	$ (629)	$ (8)	$ (5,845)	$ (7,361)
	Periodicals Small Parcels Cost (000) Adjusted								$ (3,062)	$ (19)	$ (3,081)	$ (371)	$ (6)	$ (3,458)	
	Periodicals Large Parcels Cost (000) Adjusted								$ (2,120)	$ (6)	$ (2,127)	$ (257)	$ (2)	$ (2,386)	

Line No - Source
(1) USPS-LR-L-5 - I FORMS.xls
(2) USPS-LR-L-67 - VolAdj.USPS.xls - PeriodicalVolAdj
(3) (2) - (1)

Column No - Source
(1) - USPS-LR-L-67 - UDCInputs.USPS - CARMM
(2) Ratio of 6.1 Costs - USPS-LR-L-67 - UDCInputs.USPS - CS6&7CRA
(3) Ratio of 6.1 Costs - USPS-LR-L-67 - UDCInputs.USPS - 7.06
(4) Ratio of 7.1 Letter Route Costs - USPS-LR-L-67 - UDCInputs.USPS - 7.06
(5) Ratio of 7.1 Special Purpose Route Costs - USPS-LR-L-67 - UDCInputs.USPS - 7.06
(6) (2) + (3) + (4) + (5)
(7) (1) + (6) - USPS-LR-L-67 - UDCInputs.USPS.xls - CS6&7CRA
(8) USPS-LR-L-67 - UDCInputs.USPS.xls - CS67SHAPE
(9) Ratio of Delivered Volumes - USPS-LR-L-67 - UDCInputs.USPS - 7.06
(10) (8) + (9) - USPS-LR-L-67- UDCInputs.USPS.xls - CS6&7CRA
(11) Ratio of 7.1 Letter Route Costs - USPS-LR-L-67 - UDCInputs.USPS - 7.06
(12) Ratio of 7.1 Special Purpose Route Costs -USPS-LR-L-67 - UDCInputs.USPS - 7.06
(13) (10) + (11) + (12) - USPS-LR-L-67- UDCInputs.USPS.xls - CS6&7CRA
(14) (7) + (13)-USPS-LR-L-67- UDCInputs.USPS.xls - CS6&7CRA

RESPONSE OF POSTAL SERVICE WITNESS KELLEY (USPS-T-30)
TO POIR NO. 8, QUESTION 13

13. In his response to interrogatory VP/USPS-T30-17, witness Kelley states "USPS-LR-L-67 provides a reasonable estimate of the delivery costs for DALs ... . However, I do not think that the DAL costs in USPS-LR-L-67 can be mechanistically applied to estimate the change in total costs that would be anticipated for a substantial reduction in DALs (e.g., 50 percent, or 100 percent)."

a. Please confirm the Cost Segment 7 DAL delivery costs developed in tab "10.DALs" of workbook UDCModel.USPS in USPS-LR-L-67 are the volume variable costs of ECR Saturation Letters (DPSed, cased, or sequenced) combined with the volume variable cost of the host piece. If not confirmed, please explain fully.

b. Please confirm the Cost Segment 6 DAL delivery costs developed in tab "CARMMCasing" of workbook UDCInputs.USPS in USPS-LR-L-67 are volume variable casing costs calculated directly from IOCS tallies of DALs. If not confirmed, please explain fully.

c. In her testimony, Witness Coombs states "Experience in today's delivery units suggests that the sequenced flat-shaped pieces will be taken directly to the street in most cases. This tends to validate the belief that the handling of these flat-shaped pieces is unaffected by the presence or absence of a DAL." USPS-T-44 at 13. Please state all significant operational differences in the treatment of Saturation Flats based on the presence or absence of an address. Further, please state and explain any measurable cost differences caused by these operational differences.

d. Please confirm that compensation for rural carriers does not vary based on whether Saturation Flats have an address or not. If not confirmed, please explain fully.

RESPONSE:

a. Not confirmed. This spreadsheet develops segment 7 costs for Non-DAL ECR Saturation letters, DALs, Attached Label Saturation Flats, and Host Piece Flats separately. These costs feed directly into the 7.1 Delivery Activity costs in worksheet '11SummaryBY' within UDCModel.USPS.xls. The table below illustrates the mapping between the two worksheets within UDCModel.USPS.xls.

RESPONSE OF POSTAL SERVICE WITNESS KELLEY (USPS-T-30)
TO POIR NO. 8, QUESTION 13

ECR Saturation	Worksheet '10DALs' - Volume Variable Segment 7 Costs	Worksheet '11SummaryBY' – Volume Variable Segment 7 Costs
Non-DAL Attached Label Letters	Cell D33 ($49,009)	Cell H77
DALs	Cell D32 ($42,001)	Cell H79
Attached Label Saturation Flats	Cell D41 ($50,814)	Cell H78
Host Piece Saturation Flats	Cell D40 ($37,751)	Cell H80

b. Partially confirmed. The costs are the volume variable costs. They are the sum of the volume variable casing costs from 'direct' tallies of DALs along the portion of 'mixed mail' tallies that are distributed to DALs. My understanding is that 'mixed mail' tallies are distributed to DALs based the 'direct' tallies. The costs from 'direct' and 'mixed mail' tallies can be distinguished within USPS-LR-L-67 in workbook 'CARMM05_KLDetail_3RGrpCasingGeneral.xls column F titled 'Source'. Source 'K' represents costs from 'direct' tallies and 'L' represents costs from 'mixed mail' tallies.

c. For city delivery carriers, the primary operational options for treatment of a Saturation Flats mailing are to take it directly to the street, or handle it in the office. If handled in the office, it could be cased or collated with another mailing. From an operational perspective, whether the Saturation flat is addressed or not, the mailing should be taken directly to the street, if possible.

It is generally believed that unaddressed pieces are much less likely to be handled in the office than addressed pieces. This notion is converted into an assumption within USPS-LR-L-67 that unaddressed Saturation Flats are taken directly

to the street. Addressed Saturation Flats, however, can be either cased or taken directly to the street. USPS-LR-L-67 estimates that approximately sixty-eight percent of addressed Saturation Flats are taken directly to the street, and the remaining thirty-two percent are either cased or collated. Combining that estimate with the assumption that all unaddressed Saturation Flats are taken directly to the street results in the estimate that approximately eighty-three percent of Saturation Flats are taken directly to the street. This percentage supports the statement in the testimony of witness Coombs that "experience in today's delivery units suggests that the sequenced flat-shaped pieces will *be taken to the street in most cases.*"

The cost implications of the two handling options for Saturation Flats are discernable. *Cased Saturation Flats not only incur nontrivial in-office costs but also* derive their segment 7 costs from the regular 'flats' cost pool and, therefore, have the same segment 7 unit cost as other non-Saturation Flats. *Flats* taken directly to the street, on the other hand, receive a trivial amount of in-office costs and derive their segment 7 costs from the 'sequenced' cost pool which has a lower regular delivery unit cost than the 'flats' cost pool (1.98 cents for regular flats and 1.33 cents for sequenced flats). Therefore, Saturation Flats that are taken directly to the street have a lower unit delivery cost than cased Saturation Flats.

d. Not confirmed. If the piece is unaddressed or has a simplified address then the Saturation Flat is counted as a Boxholder, which is one compensation category. If addressed, it is counted as a Flat, which is a different, higher compensation category.

RESPONSE OF POSTAL SERVICE WITNESS KELLEY (USPS-T-30)
TO POIR NO. 8, QUESTION 14

14. In his response to interrogatory VP/USPS-T30-17, witness Kelley further states "the issue with respect to total costs would be the cost consequences of handling the associated flats (i.e., the no longer-host pieces). Depending on how the remaining flat pieces are handled, additional costs might or might not offset some portion of the savings obtained by not having to handle the DALs."

a. Does USPS-LR-L-67 take into account changes in delivery costs related to changes in mail processing and delivery operations?

b. If not, please provide rationale for the reservation in defining the DAL costs based on concern for future operations.

RESPONSE:

a. Not specifically. USPS-LR-L-67 disaggregates the subclass delivery costs from the CRA into delivery costs for relevant rate categories and is not intended to address cost changes relating to potential changes in mail processing or delivery operations. If subclass costs are estimated to change between the base year and the test year because of anticipated changes in mail process or delivery operations that result in identified cost reduction programs or other programs in the rollforward process, then USPS-LR-L-67 would likewise reflect those differences in the test year unit delivery costs at the rate category level.

b. The cost implications of some changes in mail makeup can be analyzed in a relatively easy manner because the makeup change is unlikely to have a material impact on volumes or operational processes. In contrast, those cases in which volume changes or operational changes are likely to take place require a more complex analysis before the cost consequences can be estimated.

I believe that a substantial decrease in the number of DALs falls into the second, more complex, category, even if it would not affect the RPW estimate of Saturation Flats volume. I am not confident that two or three billion DALs (from a current base year estimate of approximately four billion) could be eliminated from the delivery network

without some material possibility of such reduction causing unanticipated changes in operational processes for city carriers and compensation implications for rural carriers.

For city routes, my reservation in defining DAL costs under this scenario is due to the fact that the delivery costs in an environment with a substantially reduced number of DALs have not been studied. I have no reason to disagree with the statement from witness Coombs cited in POIR No. 8 question 13 (c) "that the handling of flat-shaped pieces is unaffected by the presence or absence of a DAL." However, my comfort level in mechanistically applying the savings from the current volume to a new lower figure decreases relative to the proportion of DALs removed from the city delivery network. If, for example, five percent of DALs were eliminated from city routes, then I would be reasonably comfortable in translating that volume decrease into savings by simply multiplying the city DAL costs by five percent. But, on the other hand, if fifty percent of DALs are removed from the city delivery network, I would be much less comfortable estimating the delivery savings from such a reduction by multiplying the total DAL costs by fifty percent. It may not be prudent to adopt such an estimate without further study that analyzed the specific cost consequences of city delivery with a dramatically reduced number of DALs. Studies often reveal unexpected results that defy seemingly sound preconceived notions. In short, the city carrier cost savings that may result from a significant reduction in the number of DALs may warrant further study before assuming that they can satisfactorily be estimated by multiplying the costs of all DALs by the proportion anticipated to be removed from the delivery network. On the other hand, in the absence of any such study, I agree that the above-described assumption provides the most reasonable starting point for analysis of city carrier costs.

RESPONSE OF POSTAL SERVICE WITNESS KELLEY (USPS-T-30)
TO POIR NO. 8, QUESTION 14

On rural routes, my reservation is much more concrete. Having the address on the DAL allows the corresponding host-piece to travel as a 'Boxholder'. In the current environment, if the DAL were eliminated and the host-piece becomes addressed, the host piece would then move into a different compensation category, and the net cost savings would clearly be less than the direct savings from the elimination of the DAL.

Response of Postal Service Witness Kelley to Interrogatories Posed by the Parcel Shippers Association

PSA/USPS-T30-1. Please refer to Table 1 on Page 4 of your testimony, which shows Test Year unit delivery costs by rate category. Please explain why the unit cost for First-Class Mail Presort parcels is higher than the unit cost for First-Class Mail single-piece parcels.

Response

The test year unit delivery costs, as reported in Table 1 of USPS-LR-L-67, are 35.790 and 35.094 cents for First Class Presort parcels and First Class Single Piece parcels, respectively. The difference between the unit delivery costs is only 0.7 cent, so I don't see what there is to explain. Both categories are quite similar in terms of the proportion of volume delivered by city and rural carriers, and in the split between small and large parcels on city routes.

RESPONSE OF POSTAL SERVICE WITNESS KELLEY TO INTERROGATORIES OF VALPAK

VP/USPS-T30-1.

Please refer to your workbook UDCModel.USPS.xls, in USPS-LR-L-67, sheet '21.ECRUnitCosts.' In order to simplify the discussion, this interrogatory assumes carrier times of one second per cent, and talks in terms of marginal seconds (per piece) instead of marginal cost (per piece). One second per cent, or one cent per second, for FY 2005 is implied approximately by the carrier wage of $35.471 per hour shown in cell C12 of the 'Inputs' sheet of your workbook UDCInputs.xls, also in USPS-LR-L-67 (35.471 $/hr * 100 ¢/$ * (1/3,600) hr/sec = 0.9853 ¢/sec ≈ 1 ¢/sec).

a. Are the CCS volumes shown in column D estimates of the volumes carried by city carriers? If not, how should these volumes be viewed and are other volume estimates available? If so, please provide references.

b. The figure in cell E9 suggests that from a typical base position, which would mean that one or more letters are already in place, an additional letter takes the carrier an additional 1.81 seconds of street time to handle and deliver. Do you agree with this interpretation of the cost of $0.0181 as shown and with the marginal nature of the cost? If you do not, please provide your own interpretation of the cost.

c. Do you agree that most of the time an additional letter for the carrier takes the form of the carrier having one more letter in the carrier's group of delivery point sequenced ("DPS'd") letters for the route? If you do not agree, please explain how you would conceptualize the marginal situation leading to the marginal cost of $0.0181.

d. Please assume that all letters being delivered on the street by a carrier have been DPS'd and that in the base position, a particular stop receives four letters. Would it be your expectation that if the carrier had an additional five letters for the stop, it would take the carrier an additional 9.05 seconds at the stop to accomplish delivery (9.05 sec = 5 • 1.81 sec)? If this is your expectation, or approximately your expectation, please explain, in terms of operations, why you believe it is a reasonable expectation. Specifically, what steps and motions and other activities would the carrier go through to use an additional 9.05 seconds? If you do not believe this is a reasonable expectation, what steps do you believe could be taken to improve the analysis?

e. The figure in cell I13 suggests that from a typical base situation, which could mean that zero or maybe one sequenced letter or flat is already in place, an additional sequenced letter takes the carrier an additional 1.22 seconds of street time to handle and deliver. Do you agree with this interpretation of the cost of $0.0122 as shown and with the marginal nature of the cost? If you do not, please provide your own interpretation of the cost.

f. Do you agree that, in the predominant situation, an additional sequenced letter for a carrier takes the form of the carrier having to reach into a separate pile or bundle and procure a letter, and merge it with other mail for delivery, but, without the additional sequenced letter, the carrier would not have to reach into the separate pile at all? If you do not agree, please explain how you would conceptualize the marginal situation leading to the marginal cost of $0.0122.

g. Please compare the additional time of 1.81 seconds to handle an additional nonsequenced letter (most likely in a DPS'd bundle) to the additional time of 1.22 seconds to reach into a separate pile and procure a sequenced letter and merge it with other mail, and explain whether you view these results as reasonably well aligned with the activities that would be expected of the carrier, given the nature of the operations involved. If you do not believe these results are reasonable, what steps do you believe could be taken to improve the analysis?
h. Please compare the additional time of 1.98 seconds to handle an additional flat in a group of flats cased by the carrier (a group that could also have a non-DPS'd letter) to the additional time of 1.33 seconds to reach into a separate pile and procure a sequenced flat and merge it with other mail, and explain whether you view these results as reasonably well aligned with the activities that would be expected of the carrier, given the nature of the operations involved. If you do not believe these results are reasonable, what steps do you believe could be taken to improve the analysis?
i. These results show that the additional street time for delivering an additional sequenced flat is 1.33 seconds, but that the additional street time for delivering an additional DPS'd letter is 36 percent higher at 1.81 seconds. In terms of the motions and other operations required of carriers, please explain why it takes 36 percent longer to handle an additional DPS'd letter than to handle an additional sequenced flat, when delivering the sequenced flat requires reaching into a separate pile, procuring the additional flat, and merging it with the other mail for delivery.
j. In developing street costs, did you consider supplementing your primary analysis with a separate inquiry, using either MTM methods or a controlled experiment, or some other approach, into the relative times taken by some of the basic operations at issue in this question? If you did, please provide the results of that consideration. If you did not, please comment on whether you think such an approach might be a reasonable way to introduce into the analysis reviewable relationships that are focused in a clear way on the details of actual operations.

Response

a. Yes, the volumes in column D are estimated volumes that are delivered by city carriers. I will briefly explain the derivation of each estimate in column D.

Cell D9 is an estimate of the ECR regular letters (non-sequenced) delivered by city letter carriers for FY2005. The number is derived by taking the total estimated ECR letter volume from CCCS and subtracting the estimated sequenced letter volume. The estimated letter and flat sequenced volume is

calculated in the manner described on page 7 line 18 of my direct testimony (USPS-T-30).

Cell D10 is an estimate of the ECR regular flats (non-sequenced) delivered by city letter carriers for FY2005. The number is derived by taking the total estimated ECR flat volume from CCCS and subtracting out the sequenced flat volume.

Cell D11 is an estimate of the ECR small parcels regularly delivered (non-sequenced) by city letter carriers. It equals zero since all ECR parcels are host pieces of DAL mailings and are assumed to be sequenced, which leaves zero regularly delivered small parcels.

Cells D13, D14, and D15 are the estimated FY2005 sequenced volumes for letters, flats, and small parcels. Cell C12 is the sum of the sequenced letter, flat, and small parcel volume.

Cell D16 is the estimated ECR large parcel volume. This estimate is taken directly from CCCS.

b. I do not agree. My interpretation of the $0.0181 is that it estimates the volume variable regular-delivery-time cost per letter delivered. Regular delivery time encompasses a wide variety of activities within city letter route delivery sections including but not limited to driving, walking, obtaining mail from vehicles, putting mail into satchels, and loading mail into receptacles. The additional letter that is posited could cause additional time in one or more of those activities within a delivery section, regardless of whether one or more letters is already in

place. The unit cost referenced in the question is an estimate of the volume variable regular-delivery-time cost per letter.

c. I do not agree. Refer to part b. for my interpretation of the $0.0181.

d. I don't know. The current street time model captures total additional regular delivery time across all delivery activities which includes functions such as driving; walking; and obtaining mail from vehicles, in addition to time spent at delivery stops. Therefore, total additional delivery time encompasses a broader set of activities within delivery sections than just the additional time spent at a stop delivering mail from a 'base' position.

e. I do not agree. The $0.0122 in cell I13 is an estimate of the volume variable regular delivery cost per sequenced letter.

f. I agree.

g. Given that these times are so broadly defined and that there exists a minute difference in the times, I do not view them as unreasonable.

h. Refer to my response to part g.

i. Refer to my response to part g.

j. No. I consider the primary analysis for USPS-LR-L-67 to be cost segments 6, 7 and 10 of the CRA. MTM is not used for those cost segments in the CRA. My initial thoughts are that applying MTM methods to study carrier times by operation would be extremely costly, and not necessary to produce the CRA. In addition, the Commission rejected a MTM method for cost segment 7 that was proposed in R2000-1. Refer to the R2000-1 Opinion and Recommended Decision for further information.

RESPONSE OF POSTAL SERVICE WITNESS KELLEY TO INTERROGATORIES OF VALPAK

VP/USPS-T30-2.
Please refer to pages 8 and 9 of your testimony, USPS-T-30, where you discuss a process for estimating the proportion of Saturation letters that is delivery point sequenced or cased. To the extent to which you have developed estimates, please state: (i) the proportion of Saturation letters that are DPS'd; (ii) the proportion of Saturation letters that are cased; (iii) the proportion of Saturation letters that are handled as "sequenced" mail; and (iv) how you expect these proportions to change between the base year and the test year.

Response

(i) The estimated proportion of ECR Saturation letters delivered on city routes that are DPS'd is 28.3 percent.

(ii) The estimated proportion of ECR Saturation letters delivered on city routes that are cased is 39.9 percent.

(iii). The estimated proportion of ECR Saturation letters delivered on city routes that are handled as "sequenced" mail is 31.8 percent.

(iv) USPS-LR-L-67 assumes no changes in these percentages from the base year to the test year.

RESPONSE OF POSTAL SERVICE WITNESS KELLEY TO INTERROGATORIES OF VALPAK

VP/USPS-T30-3.

Footnote 8 of your testimony (USPS-T-30, p. 11) states: "The Postal Service permit system started compiling data on the volume of DAL mailings in February 2006." In his rebuttal testimony in Docket No. R2005-1, Postal Service witness Kiefer (USPS-RT-1, p. 32, ll. 7-10) said: "As indicated on page 11 of the Postal Bulletin, the new postage statements became available effective April 3, 2005, and mailers using DALs were among the few not allowed to continue to use the previous postage statements." On page 13 of your testimony, you explain that you did not use any actual data regarding the number of DALs.

a. Please explain why you were unable to use any actual data on the volume of DALs. Please include in your explanation why a proportion from some relevant period could not be applied to a base year.

b. In the form of a proportion of an established and relevant category, for whatever periods of time are available, please provide the number of DALs as compiled thus far by the permit system.

c. Please explain the coverage of the permit system and whether information on the number of DALs is being compiled, or otherwise developed, in any other system.

d. If no information on the actual number of DALs is currently available, or even if a limited amount is currently available, please explain the schedule over the remainder of CY 2006 for additional information becoming available, giving both the dates and the nature of the information. Also, please explain what is expected to be the normal frequency for compiling DAL data and making results available.

Response:

a. In the two sentences immediately following the sentence you have quoted from the rebuttal testimony of witness Kiefer in the last case, he further stated:

> I am informed that the Postal Service's data systems personnel are proceeding through the steps necessary to capture the new DAL information from the postage statements for data system reporting purposes. It is my understanding that completion of that process is anticipated sometime after the start of FY 2006.

Therefore, it is clear from that testimony that no comprehensive DAL information from that source would be available for FY 2005, which was the period for which I needed an estimate for purposes of my analysis in this proceeding.

Moreover, I disagree with your characterization of my testimony. To the extent that my FY05 estimate is based on the FY04 estimate applied by the Commission in the last case, which in turn was heavily dependent on actual data supplied by Advo on the record in that proceeding, I believe that my analysis does use actual data, although admittedly actual data from FY2004. I think that the FY2004 estimate is sufficiently reliable due to the extent that it was thoroughly litigated during Docket No. R2005-1. Given that I had no information from FY 2005 with which to work, I started with the FY2004 DAL figure and applied the ratio outlined on page 13 of my testimony. I believe that this procedure provides the most accurate estimate available of FY2005 DAL volumes.

b. Redirected to the Postal Service.

c. Redirected to the Postal Service.

d. Redirected to the Postal Service.

RESPONSE OF POSTAL SERVICE WITNESS KELLEY TO INTERROGATORIES OF VALPAK

VP/USPS-T30-4.

Please refer to page 12, lines 17-19, of your testimony (USPS-T-30), where you say: "Secondly, an assumption is made that DALs are cased at the same casing productivity rate (41.2 per minute), and with the same probability, as other non-DPS ECR Saturation letters."

a. On days that a sequenced mailing of flats is delivered, is it not generally correct that any associated DAL is also delivered? Explain any failure to agree.

b. On days that a sequenced mailing of letters is delivered, is it not correct that there are no associated DALs to be delivered? Please explain any failure to agree.

c. Would you agree that there are instances, perhaps a good many instances, where a sequenced mailing of flats is to be delivered but the carrier, for one reason or another, decides to case an associated DAL? Please explain any failure to agree.

d. Would you agree that there are never instances where a sequenced mailing of letters is to be delivered but the carrier decides to case an associated DAL? Please explain any failure to agree.

e. If the question of whether to case non-DPS'd letters occurs on days when a sequenced mailing might or might not exist and the question of whether to case DALs always occurs on days when there is already at least one sequenced mailing, please explain why the probability of casing the DAL would not be higher than the probability of casing the letter.

Response

a.-e. That part of my assumption stating that DAL are cased "with the same probability as other Non-DPS ECR Saturation letters" is incorrect and should have been omitted from my direct testimony. The actual assumption made in USPS-LR-L-67 is that DAL and other Non-DPS ECR Saturation letters are cased at the same rate (41.2 per minute), not with the same probability.

Responses of Postal Service Witness Kelley to Interrogatories Posed by Valpak, Dealers Association, Inc

VP/USPS-T30-5.

a. Of the total number of DALs which you estimate to have been entered during Base Year 2005, what was the volume or percentage of DALs delivered by city carriers?

b. What was the volume or percentage of DALs delivered by rural and contract carriers?

c. What was the volume or percentage of DALs delivered to post office boxes?

d. If the individual percentages you provide in response to preceding part a through part c do not add to 100 percent, please explain what accounts for the difference.

e. Please explain how you obtained the data for each of your responses to preceding part a through part c. That is, if such data on DALs now are collected as an integral part of one of the Postal Service's ongoing sampling or statistical collection systems, please indicate the system where the data can be found. Alternatively, if the data supplied in your above responses are the result of an ad hoc estimating process, please explain how each estimate was derived.

Response

a. USPS-LR-L-67 estimates that 2,807,885,000 DALs were delivered by city carriers during FY05. This constitutes sixty-one percent of the total base year DAL estimate of 4,607,997,000.

b. USPS-LR-L-67 estimates that 1,123,579,000 DALs were delivered by rural carriers during FY05. This constitutes twenty-four percent of the total base year DAL estimate of 4,607,997,000. USPS-LR-L-67 does not have an estimate of DALs delivered by contract carriers.

c. USPS-LR-L-67 does not have an estimate of this total. After the rural and city estimate are subtracted from the total DAL estimate, 676,533,000 remain. Those are presumably distributed between post office boxes, highway contract routes, and general delivery. However, the model does not refine the estimated DALs utilizing modes of delivery other than city or rural carriers any further.

Responses of Postal Service Witness Kelley to Interrogatories Posed by Valpak, Dealers Association, Inc

d. USPS-LR-L-67 estimates that eighty-five percent of DALs are delivered on city or rural routes and the remaining fifteen percent are distributed amongst post office boxes, highway contract routes, and general delivery.

e. For FY05, I developed an estimate using DAL information provided in R2005-1, as well as base year ECR Saturation letter volumes from each of the carrier systems. The specific estimation methodology used to provide the answers to parts a through c of this question is explained on pages twelve through fourteen of my direct testimony (USPS-T-30).

Responses of Postal Service Witness Kelley to Interrogatories Posed by Valpak, Dealers Association, Inc

VP/USPS-T30-6.
For the total volume of DALs delivered by city carriers, as provided in response to part a of VP/USPS-T30-5, please indicate:
a. The volume or percentage estimated to have been cased.
b. The volume or percentage estimated to have been taken directly to the street as an extra bundle.
c. The volume or percentage estimated to have been DPS'd.
d. Please explain how the data for each of your responses to the above part a through part c were derived. That is, if any of the requested data now are collected as an integral part of one of the Postal Service's ongoing sampling or statistical collection systems, please indicate the system where the data can be found. Alternatively, if any of your responses to the above part a through part c are the result of an ad hoc estimating process, please explain how the estimate was derived.

Response

a. USPS-LR-L-67 estimates that 1,292,953,000 DALs or forty-six percent of the total DALs delivered on city routes, were cased during FY2005.

b. USPS-LR-L-67 estimates that 1,514,931,000, or fifty-four percent of the total DALs delivered on city routes, bypassed casing and was taken directly to the street.

c. USPS-LR-L-67 assumes that zero percent of DALs are DPS'd.

d. The methodology used to derive the figures for parts a. and b. are explained in my direct testimony (USPS-T-30), pages seven through ten. The justification for the assumption in part c is included on page twelve of my direct testimony (USPS-T-30).

Responses of Postal Service Witness Kelley to Interrogatories Posed by Valpak, Dealers Association, Inc

VP/USPS-T30-7.

a. In Docket No. R90-1, Postal Service witness Shipe provided data on the rate at which city carriers could case Saturation letters and flats manually. Since witness Shipe's data were collected before widespread deployment of vertical flats cases, why are those data considered representative of casing rates when city carriers use vertical flats cases?

b. Since Docket No. R90-1, has the Postal Service collected any more recent data on the rate at which city carriers case Saturation letters and flats in vertical flats cases? If so, please provide the most recent data, and indicate the source.

c. Of the total time that city carriers are estimated to spend casing mail, what percent of the time is spent casing mail in vertical flats cases, and what percent is spent casing mail in the traditional letter and flats cases?

Response

a. Casing productivities are only necessary to partition CCCS ECR Saturation volume into two parts 1) cased volume or 2) sequenced volume. As I indicated in interrogatory response VP/USPS-T16-27 in Docket R2005-1, "for ECR Saturation letters, the casing rate of 41.2 pieces per minute is justified since the implementation of vertical flat cases was assumed by Shipe to have a negligible impact on the casing productivity of sequenced letters. To further illustrate that point, the study made no adjustment to the letter casing productivities to account for the expected implementation of vertical flats cases. In contrast, for non-sequenced flats, a twenty-eight percent increase in productivity was incorporated for nonsequenced flats cased using vertical flats cases."

b. My understanding is that the Postal Service does not have more recent data on the rate at which carriers case Saturation letters and flats in vertical flats cases.

c. My understanding is that the Postal Service does not have estimates of proportions of time city carriers spend casing in 1) vertical flats cases or 2) traditional letter and flats cases. However, I understand that the vast majority of city carriers currently utilize vertical flats cases.

Responses of Postal Service Witness Kelley to Interrogatories Posed by Valpak, Dealers Association, Inc

VP/USPS-T30-8.

The testimony by witness Coombs (USPS-T-44) notes at page 13, lines 2-3, that "[h]aving to case the host flat pieces would be logistically more challenging than simply casing the letter-shaped DAL cards."

a. Is casing of host flat pieces logistically more challenging than casing ordinary flats, such as enveloped flats or catalogs? In your response, please assume that weight of the host flat pieces and other flats is equal.

b. Does the Postal Service have any empirical data which distinguish the rate at which city carriers case (i) addressed Saturation flats, and (ii) unaddressed Saturation covers, or wraps, that are accompanied by DALs? If so, please provide the most authoritative data available on such casing rates.

Response

a. Redirected to witness Coombs (USPS-T-44).

b. My understanding is that the Postal Service does not have empirical data on the rates at which city carriers case i) addressed Saturation flats or ii) unaddressed Saturation covers, or wraps that are accompanied by DALs.

Responses of Postal Service Witness Kelley to Interrogatories Posed by Valpak, Dealers Association, Inc

VP/USPS-T30-9.

a. In this docket, what is the assumed rate at which city carriers case DALs?
b. In this docket, what is the assumed rate at which city carriers case ECR letters?
c. In this docket, what is the assumed rate at which city carriers case ordinary addressed ECR flats?
d. In this docket, what is the assumed rate at which city carriers case unaddressed ECR covers, or wraps?
e. In this docket, what is the assumed rate at which city carriers collate ECR flats?
f. After using IOCS tallies to estimate the total hours that city carriers spent casing or collating items which were recorded on those tallies as ECR flats, how do you estimate the total hours spent (i) casing DALs, and (ii) casing or collating flats?

Response

a. and b. USPS-LR-L-67 only uses casing rates to partition the volume of Non-DPS ECR Saturation letters and flats into 1) cased or 2) sequenced. For that purpose, the assumed rate at which city carriers case ECR Saturation letters is 41.2 pieces per minute. ECR Saturation DALs are also assumed to be cased at 41.2 pieces per minute.

c. USPS-LR-L-67 only uses a flats casing rate to partition total attached label ECR Saturation flats into 1) cased or 2) sequenced. For that purpose, USPS-LR-L-67 supposes a casing rate of 27.4 pieces per minute.

d. USPS-LR-L-67 supposes that all unaddressed covers and wraps are taken directly to the street, so no casing rate is necessary.

e. *To the extent that mail is being collated, the costs are included in the* 'pure' casing costs that are used to partition the ECR Saturation flats into cased or sequenced. As a result, USPS-LR-L-67 implicitly assumes a collation rate equal to the casing rate for ECR Saturation flats of 27.4 pieces per minute.

f. The IOCS tallies provide 'pure', as defined in USPS-LR-L-67.doc, casing costs for 1) DALs, 2) attached label ECR Saturation letters; and 3) attached label ECR Saturation flats. USPS-LR-L-67 does not use these costs to estimate total casing hours. Rather, it divides these costs by the costs per cased piece in column 4 of the 'CasingEstimates' worksheet in "VolAdj.USPS.xls" in order to compute total pieces cased. As discussed in part e, collating costs, to the extent that they occur, are included in the 'pure' casing costs from IOCS.

Revised Responses of Postal Service Witness Kelley to Interrogatories Posed by Valpak, Dealers Association, Inc

VP/USPS-T30-10.
a. What is the estimated city carrier street cost to deliver a cased flat?
b. What is the estimated city carrier street cost to deliver a sequenced flat?
c. What is the estimated city carrier street cost to deliver a DAL that is part of a bundle of DPS'd letters?
d. What is the estimated city carrier cost street cost to deliver a DAL that has been cased in a vertical flats case with other flats?
e. What is the estimated city carrier street cost to deliver a DAL that has not been cased or DPS'd, but instead has been taken directly to the street as part of a separate, sequenced bundle?
f. What is the estimated city carrier street cost to deliver both a DAL and sequenced cover, or wrap? If the answer depends on how the DAL was prepared, or handled, please provide separate responses for each possibility.

Response

a.-f. For the purpose of answering this question, I make three assumptions: 1) street costs refer to volume variable street costs with piggybacks included; 2) the scope of your questions refers to ECR; and 3) the unit costs requested are per CCCS piece.

The last assumption requires a bit more discussion. USPS-LR-L-67 includes data that allows unit costs per CCCS piece to be computed. However this is not the purpose of the delivery cost model. The purpose is to derive delivery costs per originating piece. USPS-LR-L-67 disaggregates the delivery costs from the CRA from the subclass level to the rate category level. Unit cost analysis within the CRA is done per originating piece and that is repeated in USPS-LR-L-67. Since the objective of USPS-LR-L-67 is not to derive unit delivery costs as you define them, I do not endorse the unit delivery costs provided in the table below.

In addition, the unit costs provided in the table reflect the average volume variable costs across all regularly delivered and sequenced pieces respectively, The table does not treat DAL costs separately (either cased or sequenced) from

other pieces that are regularly delivered or sequenced. Thus, for example, the unit cost shown below for a Cased DAL is essentially the average unit cost for any cased letter-shaped piece. That average, moreover, reflects the effects of many different types of letter-shaped pieces, some of which (such as DALs) could have costs materially higher or lower than the composite average. The same is true of the unit cost shown for Sequenced DAL.

ECR	Volume Variable Street Time Cost per CCCS piece (Cents) Source USPS-LR-L-67
Cased Saturation Flat	2.769
Non-Saturation Flat (includes cross-walked sequenced Non-Saturation parcels)	2.850
Saturation Sequenced Addressed Flat	1.869
Saturation Sequenced Unaddressed Flat (includes cross-walked sequenced Saturation parcels)	1.884
DPS'd DAL	0.000[1]
Cased Saturation DAL	2.543
Saturation Sequenced DAL	1.716
Cased DAL and Saturation Unaddressed Sequenced Flat (includes cross-walked Saturation parcels)	4.427
Sequenced DAL and Saturation Unaddressed Sequenced Flat (includes cross-walked Saturation parcels)	3.600

[1] USPS-LR-L-67 assumes that no DALs pass through DPS. However, my understanding of the city carrier street time model is that the volume variable street time cost for a cased letter and a DPS'd letter are the same.

Response of Postal Service Witness John P. Kelley to Interrogatories Posed by the Valpak Direct Marketing Systems and Valpak Dealers' Association, Inc

VP/USPS-T30-11.

Please refer to your response to VP/USPS-T30-1(b), which asked if the amount in cell E9 of tab '21.ECRUnitCosts' in workbook UDCModel.USPS.xls in USPS-LR-L-67 means that, from a typical base position, an additional letter takes the carrier an additional 1.81 seconds of street time to handle and deliver. Your response is that you "do not agree." You go on to explain that the figure in cell E9 is "the volume variable regular-delivery-time cost per letter delivered" and that "[r]egular delivery time encompasses a wide variety of activities within city letter route delivery sections including but not limited to driving, walking, obtaining mail from vehicles, putting mail into satchels, and loading mail into receptacles." You add: "The additional letter that is posited could cause additional time in one or more of those activities with a delivery section, regardless of whether one or more letters is already in place. The unit cost referenced in the question is an estimate of the volume variable regular-delivery time cost per letter."

a. Is it your position that the cell E9 amount is something other than an estimate of the marginal street cost of letters? If so, please explain the difference between the nature of the cell E9 amount and the marginal street cost of non-sequenced letters, and state the location(s) in the Postal Service's filing in the instant docket where a marginal street cost of letters is estimated or otherwise provided.

b. When you refer to "the volume variable regular-delivery time cost per letter," are you referring to something other than the volume variable street cost of nonsequenced letters divided by the corresponding number of letters? If so, please explain.

c. In a section that provides definitions, Postal Service witness Milanovic (USPST-9) defines "volume variable cost" as "Volume times Marginal Cost." USPST-9, Exhibit USPS-9C, p. 6.

(i) Do you disagree in any way with witness Milanovic's definition of "volume variable cost"? If so, please explain.

(ii) Do you believe the "volume variable regular-delivery time cost per letter" to be something different from the volume variable cost of letters divided by the corresponding volume of letters? If so, please explain.

d. Please refer to the testimony of Postal Service witness Bozzo in Docket No. R2005-1, USPS-T-12, page 18, line 21, which shows marginal cost to be a partial derivative of cost with respect to volume, with variables appropriately defined.

(i) Please explain any extent to which you disagree with witness Bozzo's definition of "marginal cost."

(ii) Do you believe anything in the definition of "marginal cost" precludes recognition of any additional driving time, walking time, time obtaining mail from vehicles, time putting mail into satchels, and time loading mail into receptacles? If so, please explain.

(iii) Do you agree that quantification of a partial derivative can be done only at a particular position, which was referred to in VP/USPS-T30-1(b) as a "typical base position"? If you do not agree, please explain. If you do agree, please explain the role and importance of the phrase "regardless

of whether one or more letters is already in place," as used in your response to VP/USPS-T30-1(b).
e. Does the datum in cell E9 relate to any costs that are not street costs? If it does, please explain what those costs are.
f. Is it your position that because the datum in cell E9 covers any additional time for such activities as driving and walking, it is not an estimate of the cost of the additional street time caused by an additional letter, as asked in the question? If so, please explain. If not, please explain the emphasis you place on the fact that "delivery time encompasses a wide variety of activities."
g. Do you believe that the cell E9 amount is, in any way, ill-suited for use in a roll-forward process of the kind discussed to by Postal Service witness Waterbury (USPS-T-10)? If so, please explain how it is ill-suited.
h. Based on your understanding of carrier operations, please discuss whether the additional driving and walking cost of an additional letter would be a substantial portion of the additional street cost of an additional letter.
i. Regarding the activity of "obtaining mail from vehicles," as used in your response to VP/USPS-T30-1(b), please discuss:
(i) what is involved in this activity;
(ii) the types of routes on which this activity occurs; and
(iii) when this activity occurs.
j. Based on your understanding of carrier operations, please discuss whether, among letters, flats and sequenced mail, you would expect different marginal costs of "driving, walking, obtaining mail from vehicles, [and] putting mail in satchels," as used in your response to VP/USPS-T30-1(b).
(i) Do you believe these portions of the marginal costs should be the same or approximately the same? If so, please explain.
(ii) Do you believe the marginal costs of these activities are probably different? If so, please indicate the marginal costs you believe to be larger and your reason(s). Also, if you are able to indicate how much different they might be, please do so (*e.g.*, you might indicate that the cost of obtaining 100 flats from a vehicle and putting them into a satchel would be at least 20 percent larger than the corresponding cost for letters).

Response:

a. Yes, it is something far more specific. The unit cost in cell E9 does not represent the total marginal street cost of letters. Instead it represents only the regular delivery costs incurred by cased and DPS ECR letters on letter routes within delivery sections, divided by the estimated non-sequenced ECR letter volume. In the instant docket, a thorough explanation of the manner in which

total volume variable street time marginal costs are attributed to rate categories appears in USPS-LR-L-67.doc starting on page sixteen. For a specific rate category the base-year street time costs can be found by adding the costs in columns H and I for the desired rate category (which are in the rows) in workbook **UDCModel.USPS.xls** worksheet '11SummaryBY'.

b. Yes. The costs referred to in my response to USPS-T-30-1(b) include only regular delivery time costs incurred by non-sequenced ECR letters within delivery sections of letter routes.

c.(i) No. However, the volume referred to by witness Milanovic (USPS-T-9) is originating volume.

c. (ii) Yes. The unit cost in cell E9 is the ratio of volume variable regular delivery time letter costs to the estimated regular letter volume delivered by city carriers.

d. (i) I agree. However, the volume referred to by witness Bozzo is total originating volume

d (ii) No.

d. (iii) Yes, I agree that quantification of a partial derivative can be done only at a particular position. However, I disagree with your characterization of your specific base position as an appropriate place to quantify the marginal street time. The unit costs referred to VP/USPS-T-30-1(b) represent an average of marginal costs over the variety of 'base positions' that actually occur in city carrier street time actions, not just the specific 'typical' one, as you defined it, where one or more letters are already in place.

e. No

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f. No. The underlying purpose of emphasizing that "delivery time encompasses a wide variety of activities" was to illustrate that the additional time could occur at a variety of points within a delivery section, not just at the mail receptacle.

g. I don't know. I am not familiar with the roll-forward process.

h. The time associated with the delivery of an additional letter depends a variety of factors. If the additional letter causes an additional access for the carrier, for example, then it seems reasonable that the additional driving and walking time could be significant relative to placing the extra letter in the mail receptacle.

i. (i). My understanding is that "obtaining mail from vehicles" involves taking mail from the vehicle and either placing it in a satchel or taking it directly to the delivery point to be delivered.

i. (ii). It could happen on all types of routes that utilize a vehicle.

i. (iii). It occurs whenever the carrier needs to remove mail from the vehicle.

j. (i) Not applicable.

j. (ii). I believe the volume variable regular delivery costs per delivered letter, flat, sequenced letter, and sequenced flat found in USPS-LR-L-67 worksheet '21ECRUnitCosts' to be reasonable. First, it seems plausible to me that an additional regular letter or flat is more likely than an additional sequenced letter or flat to cause an additional access within a ZIP Code (the Postal Service's street time model uses the ZIP Code, rather than the route as the primary unit of analysis). This is because sequenced mail is likely to be delivered on routes that are already receiving a substantial amount of other mail and thus already have high coverage rates. Consequently, the delivery of an additional sequenced

letter or flat is less likely to incur additional access time, on a nationwide basis than regular letters or flats. In addition, volume data at the stop level has indicated much higher averages pieces per stop for regular letters than for sequenced letters. In other words, on a nationwide basis, many more stops are likely to receive a regular letter than are likely to receive a sequenced letter. This suggests that it is more likely that a regular letter, as compared to a sequenced letter, would be delivered by itself. To the extent that a regular letter is delivered by itself, all of the loading time would be associated with that letter. Some activities, such as opening and closing the mail receptacle must be done regardless of the amount of mail delivered. Thus, when sequenced mail is delivered at stops that are already receiving other mail, then the loading time at the stop is shared across all pieces. Third, it seems reasonable to me that sequenced letters and flats are more likely to be delivered to newer residential developments, often an indication of higher income. These newer developments are served by, either curbline or NDCBU receptacles, generally regarded as a cheaper mode of delivery as compared to park and loop. Given that income and advertising mail volume are usually thought to be positively correlated, this yet again leads to the conclusion that an additional regular letter or flat is more likely to cause an additional access and as a result more time and a higher unit cost per delivered letter than a sequenced letter or flat. In sum, the relative street costs include far more considerations than the physical activities required to obtain mail from a tray and place it into a mail receptacle. For the reasons discussed above, I believe the volume variable costs in worksheet

'21ECRUnitCosts' are reasonable estimates – especially the result that regular letters and flats have a higher unit cost than sequenced letters and flats.

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VP/USPS-T30-12.

Please refer to your response to VP/USPS-T30-1(d). The question in VP/USPS-T30-1(d) concerned the additional carrier time at "a particular stop" for an additional five letters. Your response is: "I don't know." You go on to explain: "The current street time model captures total additional regular delivery time across all delivery activities which includes functions such as driving; walking; and obtaining mail from vehicles, in addition to time spend at delivery stops. Therefore, total additional delivery time encompasses a broader set of activities within delivery sections than just the additional time spent at a stop delivering mail from a 'base' position."

a. Your response appears to suggest that inclusion of the phrase "at a particular stop" in the interrogatory caused difficulty in formulating your response. Please respond to VP/USPS-T30-1(b) assuming it referred to additional carrier time on the street to cover the route, instead of at a particular stop.

b. If you are unable to formulate a response to part a, please explain whether you believe your analysis sheds light on the situation asked about in VP/USPS-T30-1(b), as well as why the question concerning additional carrier time for delivery of multiple pieces of mail cannot be answered.

Response:

a.-b. I will assume for the purposes of answering this question that you want me to answer VP/USPS-T-30-1(d), assuming it referred to additional carrier time on the street to cover the route instead of at a particular stop. I believe it is a reasonable expectation that the additional five DPS'd letters would cause approximately an additional nine seconds of time within delivery regular sections at the ZIP Code level, which is the primary unit of analysis of Postal Service's street time costing model. Since activities within delivery sections encompass such a wide variety of activities, I cannot allocate those nine seconds to specific functions within regular delivery sections.

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VP/USPS-T30-13.

Please refer to your response to VP/USPS-T30-1(e), which asked if the amount in cell I13 of tab '21.ECRUnitCosts' in workbook UDCModel.USPS.xls in USPS-LR-L-67 means that, from a typical base position, an additional sequenced letter takes the carrier an additional 1.22 seconds of street time to handle and deliver. Your response is that you "do not agree." You go on to explain that the amount in cell I13 is "an estimate of the volume variable regular delivery cost per sequenced letter."

a. Is it your position that the cell I13 amount is anything other than an estimate of the marginal street cost of sequenced letters? If it is, please explain the difference between the nature of the cell I13 amount and the marginal street cost of sequenced letters, and state the location(s) in the Postal Service's filing in the instant docket where a marginal street cost of sequenced letters is estimated or otherwise provided.

b. Within the context of your analysis of carrier street time, which is the subject of VP/USPS-T30-1(b), when you refer to "the volume variable regular delivery cost per sequenced letter," are you referring to the volume variable street cost of sequenced letters divided by the corresponding number of letters? If not, please explain.

c. Does the cell I13 amount relate to any costs that are not street costs? If it does, please explain what those costs are.

d. Is it your position that, because the datum in cell I13 covers any additional time for such activities as driving and walking, it is not an estimate of the cost of the additional street time caused by an additional sequenced letter, as asked in the question? If it is, please explain your position.

e. Do you believe that the datum in cell I13 is, in any way, ill-suited for use in a roll-forward process of the kind discussed by Postal Service witness Waterbury (USPS-T-10)? If so, please explain how it is ill-suited.

f. Based on your understanding of carrier operations, please discuss whether the additional driving and walking cost of an additional letter would be a substantial portion of the additional street cost of an additional sequenced letter.

Response:

a. Yes, it is something far more specific. The amount in cell I13 does not represent the marginal street cost of a sequenced letter. Instead, it represents only the delivery costs incurred by sequenced letters, on letter routes within delivery sections, divided by the estimated CCCS sequenced ECR letter volume. It does not include letter route support costs, nor special purpose route costs.

Nor does it include piggybacks. The unit street time cost per CCCS piece is not explicitly presented in USPS-LR-L-67. The volume variable street time cost of sequenced letter (per CCCS piece) is $0.0171.

b. No, I am only referring to the volume variable street time costs allocated to sequenced letters incurred within delivery sections. The volume variable regular delivery costs account for seventy-one percent of the volume variable street time costs while support and piggybacks account for the remaining twenty-nine percent of the costs.

c. No.

d. Yes. The unit cost in cell E9 is the ratio of volume variable regular delivery time sequenced letter costs to the estimated sequenced letter volume delivered by city carriers.

e. I don't know. I am not familiar with the roll-forward process.

f. The time associated with the delivery of an additional sequenced letter depends a variety of factors. If the additional sequenced letter causes an additional access for the carrier, for example, then it seems reasonable that the additional driving and walking time could be significant relative to placing the extra sequenced letter in the mail receptacle.

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VP/USPS-T30-14.
Please refer to your response to VP/USPS-T30-1(j), which asked whether you considered supplementing your primary analysis with a separate inquiry, using either MTM methods or a controlled experiment, or some other approach, regarding the relative times taken by some of the basic operations at issue in the analysis of carrier street costs. Your response is: "No." You go on to explain that you align your analysis with "cost segments 6, 7 and 10 of the CRA." You also explain that an MTM analysis might be "extremely costly" and that the Commission rejected an MTM analysis for cost segment 7 in Docket No. R2000-1.
a. Please explain why an MTM analysis would be "extremely costly," presumably relative to other analytical methods.
b. Is it your belief that the Commission has never accepted an MTM analysis, or that the Commission is predisposed against MTM analyses? If so, please explain the basis for your belief.

Response:

a. My response to VP/USPS-T30-1(j) referred to my thoughts on the total cost, not the relative cost, of a MTM approach. I envision a MTM study involving direct observations, by professional data collectors, of the street activities of several hundred and possibly thousands of letter carriers on multiple occasions. I foresee such an undertaking as extremely expensive.

b. I have no preconceived notions of the Commission's thoughts on MTM analysis.

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VP/USPS-T30-15.

Please refer to your response to VP/USPS-T30-1(j), which asked whether you considered supplementing your primary analysis with a separate inquiry, using either MTM methods or a controlled experiment, or some other approach, regarding the relative times taken by some of the basic operations at issue in the analysis of carrier street costs. Please suppose, based on a separate inquiry, or just on your understanding of carrier operations, that you adopted what might called an axiomatic approach to the analysis of carrier street costs, with axioms such as the following:

1. The marginal cost of a DPS'd letter should be the lowest street cost of all candidate pieces, which cost may be called x.
2. The marginal cost of a letter in a cased group should be greater than x, but no less than $1.2x$.
3. The marginal cost of a flat in a cased group should be greater than $1.2x$, but no less than $1.3x$.
4. The marginal cost of a sequenced letter should be greater than $1.3x$, but no less than $1.7x$.
5. The marginal cost of a sequenced addressed flat should be greater than $1.7x$, but no less than $2x$.
6. The marginal cost of a sequenced flat with a DAL should be greater than $2x$, but no less than $2.3x$.

Please address the following questions.

a. Do you believe your understanding of the nature of carrier operations is adequate to allow you to establish and defend any such axioms or constraints?
(i) If so, what relationships would you establish?
(ii) If not, please explain how far your insights would allow you to go in forming expectations concerning results and in assessing results.

b. Do you believe it is reasonable for analysts to reject results which appear to be at unreasonable levels or that have anomalous and inexplicable relationships with each other? If not, please explain.

c. If you could honor a set of axioms (or constraints) such as those stated above, do you believe that you could do so while, at the same time, aligning your analysis with the results of Postal Service witness Bradley (USPS-T-14), and possibly honoring his overall variability, instead of his disaggregate variabilities? If so, please briefly describe how this might be done. If not, please explain why this would cause difficulties.

d. As the principal analyst providing carrier costs for subclasses and rate categories, were you constrained to honor all of witness Bradley's variability findings, even when they led to results that you found difficult to accept?
(i) If so, please explain.
(ii) If not, please explain the freedom you had to pursue an altered analysis, or to place constraints on your results.

Response of Postal Service Witness John P. Kelley to Interrogatories Posed by the Valpak Direct Marketing Systems and Valpak Dealers' Association, Inc

Response:

a. No.

a.(i). Not applicable

a. (ii). I believe that my understanding of carrier operations gives me the ability to question seemingly anomalous results. However, before making adjustments to the delivery cost model, I consult with delivery operations personnel to confirm that my understanding in these specific instances is credible.

b. It may be.

c.(i) I don't know. As no such axioms exist, I have not studied the issue proposed in the question.

d.(i) and (ii). As I stated in my direct testimony, USPS-LR-L-67 disaggregates delivery costs from the subclass level to the rate category level. Therefore, the sum of the delivery costs at the rate level within a subclass must equal the CRA delivery costs for that subclass. To the extent the CRA delivery costs embody the variabilities estimated by Dr. Bradley, they are inherent in my disaggregation of those costs to the rate category level.

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VP/USPS-T30-16.
Please refer to tab '1.Table 1' in your workbook UDCModel.USPS.xls, in USPS-LR-L-67, which shows a cost for saturation flats in cell G46 of 5.213 cents. Also, please refer to tab '21.ECRUnitCosts' in the same workbook, which shows a street cost for sequenced flats in cell I14 of 1.333 cents. Please explain whether these cost figures include the carrier costs of handling any DALs that accompany corresponding flats.
a. If so, please identify the location in your workbook where the DAL costs are recognized.
b. If not, please explain the suitability of the cost that you provide as a reference point for developing rates.

Response:

a. The unit delivery cost of 5.213 cents, presented in Table 1, includes the carrier costs of handling DALs that accompany corresponding flats. The 1.333 cents does not include the cost of handling DALs and is only included in the model for use in performing other calculations to derive the final test year unit delivery costs. USPS-LR-L-67 estimates base year DAL costs are in workbook **UDCModel.USPS** worksheet 'Summary BY' cells E79 through K79.

b. Not applicable.

Response of Postal Service Witness John P. Kelley to Interrogatories Posed by the Valpak Direct Marketing Systems and Valpak Dealers' Association, Inc

VP/USPS-T30-17.
Please refer to the response of witness Kiefer (USPS-T-36) to VP/USPS-T23-2(c)-(d), redirected from witness Page, which says: "I understand that the Postal Service has not done any studies of the net costs of DALs that would produce a reliable estimate of the total cost impact of assuming a 50% reduction in DAL usage." Whether based on a special study, or not, do you agree that no reasonable estimate of, or proxy for, the cost of a DAL can be easily developed?
a. If you agree, please explain the parts of such cost that are known and the parts that are essentially unknown.
b. If you do not agree, please provide the estimate you would suggest, along with any limitations.

Response:

a. Not applicable.

b. I think that USPS-LR-L-67 provides a reasonable estimate of the delivery costs for DALs, given the current operating procedures and volume. It estimates base year DAL costs of approximately $165 million. However, I do not think that the DAL costs in USPS-LR-L-67 can be mechanistically applied to estimate the change in total costs that would be anticipated for a substantial reduction in DALs (e.g., 50 percent, or 100 percent). The difficulty arises because if, for example, 100 percent of DALs disappeared, all of the costs associated with those DALs would, by definition, disappear as well. But the issue with respect to total costs would be the cost consequences of handling the associated flats (i.e., the no-longer-host pieces). Depending on how the remaining flat pieces are handled, additional costs might or might not offset some portion of the savings obtained by not having to handle the DALs.

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VP/USPS-T30-18.

Please refer to your responses to VP/USPS-T30-1(g), (h) and (i), which concerned marginal street times ranging from 1.22 to 1.98 seconds, within a situation where one second is approximately one cent. Your response to VP/USPS-T30-1(g) states: "Given that these times are so broadly defined and that there exists a minute difference in the times, I do not view them as unreasonable."

a. Would you agree that 1.98 seconds is approximately 62 percent greater that 1.22 seconds? If not, please provide what you believe to be the correct figure.

b. Would you agree that total variable street time to deliver each type of mail can be obtained by multiplying the marginal time by the billions of pieces of mail delivered by city carriers? If you do not agree, please explain the relationship between these marginal street times and total variable street time.

c. Please explain (i) why you regard a 62 percent difference as "minute," and (ii) what it is about the differences being "minute" that helps to make them reasonable.

d. Do you believe that characterizing the difference as "minute" carries any implications about how good either estimate is? If so, please explain state the implication(s) and your reasoning.

e. If the correct times were substantially different from the ones you found, do you believe that a result involving "minute" differences would indicate that the results are reasonable? Please explain your answer.

f. One of your results is that the marginal time of a sequenced letter is about 1.22 seconds. Please explain what it is about the time of 1.22 seconds that is "so broadly defined" and how this broad definition helps to make the times reasonable.

g. Please assume that the marginal time for a regular flat is 1.98 seconds and the marginal time for a sequenced flat is 1.33 seconds, yielding a result that a regular flat takes 0.65 seconds longer than a sequenced flat. Please assume further that the correct result is reversed, meaning that the regular flat actually takes 1.33 seconds and the sequenced flat actually takes 1.98 seconds.

(i) Do you agree that if these times were to translate directly into rates, with no markup, at one cent per second, the rate for regular flats would decline 0.65 cents per piece when shifting to the correct result? Please explain if you do not agree.

(ii) Do you agree that, for a mailer sending 500 million pieces per year, a postage difference of 0.65 cents results in an annual postage bill that changes by $3.25 million? If you do not agree, please present your own assessment.

(iii) If changes in results within a range, that you would call "minute," cause postage swings in the range of $3.25 million per year, please explain how an observation of "minuteness" lends any support at all to the acceptability of the results.

Response of Postal Service Witness John P. Kelley to Interrogatories Posed by the Valpak Direct Marketing Systems and Valpak Dealers' Association, Inc

Response:

a. I agree that (1.98-1.22)/1.22 is equal to sixty-two percent.

b. Total volume variable street time is calculated by multiplying the marginal street time for a particular subclass of mail by the total originating volume for that subclass.

c.(i) My response to VP/USPS-T-30 1(g), (h), and (i) did not compare the sixty-two percent difference between 1.98 seconds and 1.22 seconds. Therefore, I never said such a difference was "minute".

c.(ii) A sixty-two percent difference, depending on the magnitude of the numbers being considered, can be "minute" or not "minute". Apart from an expectation that two numbers should be about the same, a "minute" difference between two figures does not address the reasonableness of the numbers.

d. and e. No, a difference being minute does not necessarily make the times reasonable. For instance, if the model estimated a marginal time of 20 minutes for a sequenced letter and 20.01 minutes for a cased letter, I view the difference between the marginal times as minute but do not regard those marginal times as reasonable.

f. The estimated marginal time of 1.22 seconds includes more activities than simply placing an additional sequenced letter in a mail receptacle. As I stated in my response to VP/USPS-T-30-1(d), this time is an estimate of extra time within delivery sections that would occur with an additional sequenced letter. The purpose of using the term 'broadly defined' was to emphasize that it represents

more than the additional time to load a sequenced letter into a mail receptacle *given that the carrier is already at the receptacle before the additional sequenced* letter is introduced. I think it is reasonable to take all activities into account when measuring volume variable street time per piece.

g. (i) I do not know. I am not a rates witness.

g. (ii) I agree that 500 million multiplied by $0.0065 is approximately $3.25 million.

g (iii) As I stated in my response to parts d. and e, a difference being minute does not typically, in and of itself, make the results reasonable. A "minute" difference multiplied by a large enough number will render significant results. However, that fact does not translate into minute differences being unreasonable either.

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VP/USPS-T30-19.

Please refer to USPS-LR-L-67, workbook VolAdj.USPS.xls, tab 'RPW.' The source in cell A3 is given as "USPS-LR-L-20, Shape_GFY_2005rV.xls." USPS-LR-L-20, however, as appearing on the Commission's web site, appears to contain only a summary report, named: Fy2005_RPWsummaryreport.xls. However, USPS-LR-L-87 does contain a file named "Shape GFY 2005rV.xls."

a. Please confirm that the source of USPS-LR-L-67, VolAdj.USPS.xls, tab 'RPW' is found in USPS-LR-L-87. If you do not confirm, please provide the actual source.

b. Please confirm that none of the volumes shown on tab 'RPW' include DALs as separate pieces. If you do not confirm, please indicate which figures include the DALs.

Response

a. Confirmed.

b. Confirmed

VP/USPS-T30-21.
Please refer to USPS-LR-L-67, workbook VolAdj.USPS.xls.
a. Please refer to tab 'CagingEstimates.' Are all figures on this sheet for the Base Year? If not, please identify them.
b. In tab 'CagingEstimates,' does the zero in cell C13 mean that no unaddressed Saturation flats (of the kind that would be accompanied by a DAL) are ever (i) cased, or (ii) collated? If it does not, please explain. If it does, please explain whether this is an assumption or is based on actual data from operations.
c. Please refer to tab 'SaturationVols.' Does the zero in cell D13 mean that no DALs are ever DPS'd? If it does not, please explain what it means. If it does, please: (i) indicate whether this is an assumption, or is based on actual data from operations, and (ii) reconcile the zero figure with the statement of witness McCrery (USPS-T-42) at pages 12-13 that "[t]his includes Detached Address Labels (DALs), which are also often transported back to the plant for DPS processing in order to eliminate the need to manually case the cards in delivery." (USPS-T-42, p. 12, l. 27 to p. 13, l. 1.)
d. Please refer to tab 'CCSDisag.' Are DAL volumes included in any figures on this sheet? If they are, please indicate each cell in which they can be found.

Response

a. Yes.

b. In the derivation of the unit delivery costs for USPS-LR-L-67, I did not realize that it was possible to distinguish between 'pure casing' tallies for addressed as compared to unaddressed flats. Therefore, I made the assumption, for the purpose of determining the sequenced flat volume, that all $23 million in 'pure casing' costs be assigned to ECR Saturation attached label flats. As a result, I assumed that unaddressed saturation flats were neither cased nor collated since they incurred zero 'pure casing' costs.

Recently, however, I became aware of a different way to mine the tallies which allowed me to distinguish between 'pure casing' costs for addressed and unaddressed ECR Saturation flats. The results of this analysis showed that of

the $23 million in 'pure casing' costs $21.6 million were assigned to attached label saturation flats and the remaining $1.4 million to unaddressed flats – presumably host pieces of DAL mailings. Dividing the 'pure casing' costs of addressed and unaddressed flats by these proportions has virtually no impact (one-thousandth of a cent) on the unit delivery costs as presented in Table 1 of USPS-LR-L-67.

c. As I stated on page twelve of my direct testimony, I assumed that zero DALs pass through DPS processing in deriving the unit delivery costs. I made this assumption after discussions with delivery operations personnel that asserted that DALs pass through DPS processing rarely. In terms of witness McCrery's statement, I have nothing to add beyond what was already stated by witness Coombs in response to VP/USPS-T44-12.b.

d. Yes. DALs are included in each line of the columns (1) and (6).

Response of Postal Service Witness Kelley to Interrogatories posed by Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc.

VP/USPS-T30-22.

Please refer to the table below, which represents an effort to collect some of the costs in Library Reference USPS-LR-L-67. The lightly shaded boxes do not apply.

a. Please confirm that each estimate shown in the table is an appropriate estimate for the Base Year. If you do not confirm, please provide alternative estimates that you support.

b. Please confirm that all direct casing costs shown in the table are the result of applying casing rates from Docket No. R90-1, USPS-T-10, and do not represent results from actual, more recent operations. If you do not confirm, please explain all sources.

c. To the extent that your analysis allows, please fill in the blank boxes in the table.

d. To the extent that you believe them important, please list any key assumptions on which the figures in the table are based.

Standard ECR Mail -- DPS & City Carrier Marginal Costs
(cents per piece) (BY2005) (USPS version)

ECR Category	DPS Costs	In-office Casing Direct	In-office Non-casing Direct	In-office Indirect	Street
Letter Size					
DPS					1.81 1/
Non-Sat, Non-DPS					1.81 1/
Sat, Non-DPS, Non-Seq		1.43 5/			1.81 1/
Seq					1.22 2/
DAL					
DAL DPS					1.81 1/
DAL Cased		1.43 6/			1.81 1/
DAL Seq					1.22 2/
Addressed Flats					
Non-Sat					1.98 3/
Sat Cased		2.16 7/			1.98 3/

Sat Seq					1.33 4/
Unaddressed Flats					
Sat Cased		2.16 8/			1.98 3/
Sat Seq					1.33 4/

1/ UDCModel.USPS.xls, tab '21.ECRUnit Costs' cell E9.
2/ UDCModel.USPS.xls, tab '21.ECRUnit Costs' cell I13.
3/ UDCModel.USPS.xls, tab '21.ECRUnit Costs' cell E10.
4/ UDCModel.USPS.xls, tab '21.ECRUnit Costs' cell I14.
5/ VolAdj.USPS.xls tab 'CasingEstimates' cell F9.
6/ VolAdj.USPS.xls tab 'CasingEstimates' cell F10.
7/ VolAdj.USPS.xls tab 'CasingEstimates' cell F12.
8/ VolAdj.USPS.xls tab 'CasingEstimates' cell F12

Response

a. Not confirmed. The alternative estimates are shown on the attached spreadsheet.

b. The casing rates shown in the table do not accurately represent the In-Office Casing direct labor unit costs in USPS-LR-L-67. Witness Shipe's casing productivities are only used to partition city carrier ECR Saturation letter and flat volume into 1) cased or 2) sequenced. The unit casing costs shown in the table represent the ratio of Shipe's productivities to the city carrier hourly wage rate, or, alternatively, the ratio of 'pure casing' IOCS casing costs from letter routes to the number of pieces cased for letters and flats respectively. 'Pure casing' only includes the activity 'B' Sequencing/Casing Mail on letter routes. However, In-office Direct Casing Costs include 'general casing' costs from letter routes, SPR, and Route 99. 'General casing' includes the following three activities: 1) 'A' – Preparing Mail for Sequencing / Loading Ledges; 2) 'B' Sequencing/Casing Mail; or 3) 'C' Withdrawing/Pulling Down Mail/Strapping Out

Mail (From Carrier Case). So, while the estimates in the table are a function of the Shipe productivities, that would not be true for 6.1 direct casing costs.

c. Refer to the attached spreadsheet.

d. The important assumptions utilized to derive the unit delivery costs in USPS-LR-L-67, and thus the figures in the table, are contained in my direct testimony. I made no special assumptions for purposes of the table.

ECR S. and Non-Saturation City Costs and Volumes

ECR Category	CCS Volume (000)	Direct Casing Cost (000)	Direct Non-casing Cost (000)	In Office Indirect/Burdened on Office (000)	In Office Indirect/Burdened on Street (000)	7.1 Delivery Activity Cost (000)	7.2 Delivery Support Cost (000)	Direct Casing Unit Cost (Cents)	Direct Non-Casing Unit Cost (Cents)	In-Office (Office Burden) Unit Cost (Cents)	In-Office (Street Burden) Unit Cost (Cents)	In-Office Indirect Total Unit Cost (Cents)	Street Regular Delivery Unit Cost (Cents)	Street Unit Cost (Cents)	City Delivery Cost without Piggyback	City Delivery Unit Cost without Piggyback (Cents)
ECR Non-Sat Non DPS Letter No DAL	1,254,843	$ 46,520	$ 2,615	$ 13,391	$ 913	$ 23,168	$ 2,840	3.71	0.21	1.14	0.07	1.14	1.81	2.07	$ 89,466	7.13
ECR Non-Sat DPS Letter No DAL	1,301,417	$ -	$ 2,732	$ 744	$ 947	$ 24,028	$ 2,945	0.00	0.21	0.13	0.07	0.13	1.81	2.07	$ 31,397	2.41
Total ECR Non-Sat Letter No DAL	2,556,260	$ 46,520	$ 5,347	$ 14,135	$ 1,860	$ 47,196	$ 5,785	1.82	0.21	0.63	0.07	0.63	1.81	2.07	$ 120,862	4.73
ECR Saturation Non-DPS Letter Non-Seq (no DAL)	939,847	17,664	$ 569	$ 4,967	$ 672	$ 17,049	$ 2,090	1.88	0.06	0.60	0.07	0.60	1.81	2.04	$ 43,011	4.58
ECR Saturation DPS Letter Non-Seq	1,583,295	0	$ 959	$ 261	$ 1,132	$ 28,721	$ 3,521	0.00	0.06	0.09	0.07	0.09	1.81	2.04	$ 34,594	2.18
ECR Saturation Letter Sequenced	264,604	0	$ 160	$ 44	$ 128	$ 3,239	$ 397	0.00	0.06	0.06	0.05	0.06	1.22	1.37	$ 3,968	1.50
Total ECR Saturation Letter (no DAL)	2,787,746	17,664	$ 1,689	$ 5,272	$ 1,931	$ 49,009	$ 6,008	0.63	0.06	0.26	0.07	0.26	1.76	1.97	$ 81,573	2.93
ECR Saturation DAL DPS	-	$ -	$ -	$ -	$ -	$ -	$ -	0.00	0.00	0.00	0.00	0.00	1.81	0.00	$ -	
ECR Saturation DAL Cased	1,292,953	$ 25,309	$ 1,348	$ 7,263	$ 924	$ 23,454	$ 2,875	1.96	0.10	0.56	0.07	0.01	1.81	2.04	$ 61,173	4.73
ECR Saturation DAL Sequenced	1,514,931	$ -	$ 1,580	$ 431	$ 731	$ 18,546	$ 2,273	0.00	0.10	0.03	0.05	0.00	1.22	1.37	$ 21,561	1.56
Total ECR Saturation DAL	2,807,885	$ 25,309	$ 2,929	$ 7,693	$ 1,655	$ 42,001	$ 5,148	0.90	0.10	0.27	0.06	0.00	1.50	1.68	$ 84,735	1.04
ECR Non-Saturation Flats (includes crosswalk)	9,333,936	$ 224,143	$ 24,049	$ 67,619	$ 7,479	$ 189,763	$ 23,247	2.40	0.26	0.72	0.08	0.01	2.01	2.28	$ 536,300	5.75
ECR Saturation Flat Addressed Cased	1,085,486	$ 31,719	$ 1,156	$ 8,957	$ 830	$ 21,050	$ 2,579	2.98	0.11	0.84	0.08	0.92	1.98	2.22	$ 66,290	6.22
ECR Saturation Flat Addressed Sequenced	2,232,345	$ -	$ 2,422	$ 660	$ 1,173	$ 29,764	$ 3,646	0.00	0.11	0.03	0.05	0.08	1.33	1.50	$ 37,666	1.69
ECR Saturation Flat Unaddressed Sequenced (DAL Costs Not Included)	2,807,885	$ -	$ 3,047	$ 830	$ 1,468	$ 37,751	$ 4,625	0.00	0.11	0.03	0.05	0.08	1.34	1.51	$ 47,740	1.70
Total ECR Saturation Flat	6,105,716	$ 31,719	$ 6,625	$ 10,447	$ 3,471	$ 88,565	$ 10,850	0.52	0.11	0.17	0.06	0.23	1.45	1.61	$ 151,696	2.48
Source - USPS-LR-L-87																
Note: - All Unit Delivery Costs Shown in this table are per CCCS piece																

Response of Postal Service Witness Kelley to Interrogatories Posed by Valpak

VP/USPS-T30-23.
Please refer to your response to VP/USPS-T30-10, and the table in which you provide unit delivery costs — that you do not endorse — for DALs delivered by city carriers.
a. The volume variable street time cost for a Cased DAL and Host-Piece Sequenced Flat, as shown in your table, is $0.0462. That amount is not equal to the sum of (i) a Cased DAL ($0.0254) and (ii) a Sequenced Flat ($0.0198), the sum of which equals $0.0452. Please explain the difference.
b. The volume variable street time cost for a Sequenced DAL and Host-Piece Sequenced Flat, as shown in your table, is $0.0380. That amount is not equal to the sum of (i) a Sequenced DAL ($0.0171) and (ii) a Sequenced Flat ($0.0198), the sum of which equals $0.0369. Please explain the difference.

Response

a. and b. My revised response to VP/USPS-T30-10 resolves the issues posed in these questions.

Response of Postal Service Witness Kelley to Interrogatories Posed by Valpak

VP/USPS-T30-24.
Please refer to your response to VP/USPS-T30-10, and the table in which you provide unit delivery costs — that you do not endorse — for DALs delivered by city carriers. Also refer to the Postal Service "Request," Attachment A, page 21, footnote 7, which proposes a 1.5 cent surcharge for DALs.
a. On those occasions when city carriers case DALs, what is the estimated unit cost per DAL?
b. What is the combined, weighted average in-office and street time unit cost per DAL for city carriers to process and deliver DALs? Please explain how your answer is derived.
c. What is the average unit cost per DAL for rural carriers to handle DALs? Please explain how your answer is derived.

Response

a. and b. My revised response to VP/USPS-T30-10 only refers to street time unit (per CCCS piece) delivery costs. The table below shows the in-office and street costs and unit costs for a cased Saturation DAL (per CCCS) piece for the base year. The last row of the table shows the unit cost per DAL delivered on city routes to equal 3.768 cents. It is derived by taking the ratio of the aggregate piggybacked office and street DAL costs to the DAL volume delivered on city routes.

ECR Saturation DAL	Volume (000)	In-Office Costs (000) (Piggy included)	Street Costs (000) (Piggy included)	In-Office Unit Cost (Cents)	Street Unit Cost (Cents)	City (Office and Street)Unit Cost (Cents)
Cased	1,292,953	$43,509	$32,876	3.365	2.543	5.908
Sequenced	1,514,931	$ 3,423	$25,997	0.226	1.716	1.942
Total	2,807,885	$46,932	$58,873	1.671	2.097	3.768

c. The estimated base year unit cost for rural carriers to 5.265 cents per DAL delivered on rural routes. This is derived by taking a weighted average, by volume, of the unit costs from the relevant compensation categories for DALs. Since USPS-LR-L-67 assumes that no DALs are DPS'd, the relevant

compensation categories and units costs for DALs are 1) 'Other Letters' (unit cost 4.508 cents) and 2) 'Boxholder' (unit cost 3.100 cents). Applying the appropriate weights of 0.97 and 0.03 (based on assumption that three percent of DALs on rural routes use simplified addresses) to the 'Other Letter' and 'Boxholder' unit costs, respectively, produces a base year unit cost without piggybacks of 4.465 cents. Applying the base year piggyback factor of 1.179 produces a base year cost of 5.265 cents per DAL delivered on rural routes.

Response of Postal Service Witness Kelley to Interrogatories Posed by Valpak

VP/USPS-T30-25.
Please refer to the delivery costs for ECR letters, as contained in (1) USPS-LR-L-67 (at USPS costing) and USPS-LR-L-101 (at PRC costing) in the instant docket and (2) USPS-LR-K-67 (at USPS costing) and USPS-LR-K-107 (at PRC costing) in Docket No. R2005-1.
Please explain why high-density letters were shown as a separate category in the studies of Docket No. R2005-1 but are not shown as a separate category in the studies of the instant docket, and describe the effects of this change.

Response

Although I do not believe that it has any effect on my answer, in your question, I assume you meant to refer to USPS-LR-K-101, rather than USPS-LR-K-107.

After discussions with rate design personnel, it was my understanding that aggregated ECR Non-Saturation unit delivery costs, as subsequently presented in USPS-LR-L-67 and USPS-LR-L-101, would be sufficient for their purposes. Specifically, no one told me that they needed disaggregated rate category costs for the Non-Saturation rate categories. As a result, I decided to combine all of the ECR Non-Saturation rate categories, by shape, into average unit delivery costs. This has no effect on the underlying costs, but it could lead to misinterpretation of the reported costs. Specifically, if one were to assume (erroneously) that the aggregate unit delivery cost reported for ECR Non-Saturation is equal for each rate category to the unit cost estimate that would result if each component were estimated separately, one would be overstating the unit cost of High Density letters, as in reality the costs for High Density are lower than those for the other components of the aggregate Non-Saturation costs.

Response of Postal Service Witness Kelley to Interrogatories Posed by Valpak

VP/USPS-T30-26.

Please refer to your response to VP/USPS-T30-10.

a. When you emphasize that USPS-LR-L-67 only disaggregates, or partitions, delivery costs from the subclass level in the CRA to the rate category level, does this mean that if the unit costs provided in your response were to be (i) multiplied by the city carrier volumes of each category, and (ii) then summed, the result would equal the volume variable street time cost (segment 7) for all ECR saturation flats? If this is not correct, please indicate what such a sum would represent.

b. With reference to the unit costs provided in your response, is it reasonable to infer that the street time unit cost of handling a Cased DAL ($0.0254) is about 92 percent of the unit cost of handling a Cased ECR Saturation Flat ($0.0277)? If *this is not a reasonable inference, please explain why not, and indicate how one* would go about comparing the volume variable street time unit cost of these two items.

c. Is it reasonable to infer that the street time unit cost of handling a Cased DAL ($0.0254) is about 149 percent of the cost of handling a Sequenced DAL ($0.0171)? If this is not a reasonable inference, please explain why not, and indicate how one would go about comparing the volume variable street time unit cost of these two items.

d. Is it reasonable to infer that the street time unit cost of handling a Sequenced Saturation Flat ($0.0198) is about 71 percent of the cost of handling a Cased ECR Saturation Flat ($0.0277)? If this is not a reasonable inference, please explain why not, and indicate how one would go about comparing the volume variable street time unit cost of these two items.

e. Is it reasonable to interpret the unit costs provided in your response to VP/USPS-T30-10 as the marginal street time costs for city carriers to handle one more (or less) Saturation Flat/DAL when taken to the street in the various conditions described (*e.g.*, cased or sequenced)? If it is not reasonable to *interpret these unit costs as the marginal street time costs for city carriers* to handle one more (or less) Saturation Flat/DAL, please indicate where a better estimate of the marginal cost can be found, or how it can be derived.

Response

a. Yes. The table below demonstrates the calculation.

ECR Saturation	Segment 7 Unit Cost (cents) (including piggybacks)[1]	CCCS Volume (000)	Segment 7 Volume Variable Cost (000)[2]
Cased Flat	2.769	1,065,486	$29,504
Sequenced Addressed Flat	1.869	2,232,345	$41,718
Sequenced Unaddressed Flat	1.884	2,807,885	$52,912
Cased DAL	2.543	1,292,953	$32,876
Sequenced DAL	1.716	1,514,931	$25,997
ECR Saturation Flat (DAL costs included)	2.997	6,105,716	$183,007

[1]Source: Revised response to VP/USPS-T30-10

[2]*Multiplication of the unit costs by CCCS volume may not equal total in column 3 due to rounding.*

Response of Postal Service Witness Kelley to Interrogatories Posed by Valpak

b. – d. My revised response to VP/USPS-T30-10 changes the unit costs posed in this question. The table below has the correct unit costs as well as the relevant percentages posed in the question.

ECR Saturation	Segment 7 Unit Cost (Cents) per CCCS Piece (Piggy Included)[1]	Correct Relevant Posed in VP/USPS-T30-26
Cased DAL	2.543	$\frac{Cased\ DAL}{Cased\ Saturation\ Flat} = 92\%$
Sequenced DAL	1.716	$\frac{Cased\ DAL}{Sequened\ DAL} = 148\%$
Cased Saturation Flat	2.769	
Sequenced Saturation Flat	1.877	$\frac{Sequenced\ Saturation\ Flat}{Cased\ Saturation\ Flat} = 68\%$

[1] Source: Revised Response to VP/USPS-T30-10

My response to Interrogatory VP/USPS-T30-11(j) provided the reasons I believe that the regular delivery time unit costs are reasonable. These unit costs reflect the costs incurred by the mail shapes across the entire city carrier delivery network and thus embody more than the relative amount of time required for handling a piece on any given route. Since ECR Saturation letter and flat costs incurred within delivery sections of letter routes account for such a large portion of the total street time costs, I view the unit costs provided in my revised response to VP/USPS-T30-10 as reasonable for the exact same reasons I stated in my response to VP/USPS-T30-11(j).

e. No, not without further study. The marginal costs you are asking about are very detailed. They are the marginal costs at the rate category level, by shape, by mail characteristic or preparation. Note that the base-year model produces marginal costs at the subclass level, and your request goes far beyond that level. I have not done an analysis of the costs calculated at the rate category level, by shape, by mail preparation or characteristic, to determine if these disaggregated costs are valid estimates of the marginal street time costs to handle one more Saturation flat/DAL. I do not know of any location where such a marginal cost analysis can be found. My analysis was done solely to assist pricing witnesses in their determinations. My understanding is that witness Bradley provides the method for calculating marginal delivery times by shape in his response to VP/USPS-T14-17.

Response of Postal Service Witness Kelley to Interrogatories Posed by Valpak

VP/USPS-T30-27.
Please refer to your response to NAA/USPS-T30-7, which provided separate delivery costs for Basic and High Density ECR flats, at USPS costing.
a. Please provide similar delivery costs for Basic and High Density ECR letters, at USPS costing.
b. Provide costs for ECR letters, Basic and High Density, at PRC costing, consistent with USPS-LR-L-101.
c. Provide costs for ECR flats, Basic and High Density, at PRC costing, consistent with USPS-LR-L-101.

Response

a. The unit delivery costs for ECR Basic and High Density letters are contained in the table below.

ECR letters (USPS)	TY Costs (including piggybacks) (000)	TY Volume (000)	TY Unit Delivery Cost USPS Methodology (Cents)
Basic	$215,238	4,143,769	5.194
High Density	$27,091	660,947	4.099
Total Non-Saturation	$242,329	4,804,715	5.044

Response of Postal Service Witness Kelley to Interrogatories Posed by Valpak

b. The unit delivery costs for ECR Basic and High Density letters are contained in the table below.

ECR letters (PRC)	TY Costs (including piggybacks) (000)	TY Volume (000)	TY Unit Delivery Cost PRC Methodology (Cents)
Basic	$216,660	4,143,369	5.229
High Density	$27,271	660,947	4.126
Total Non-Saturation	$243,931	4,804,715	5.077

c. The unit delivery costs for ECR Basic, Automation, and High Density letters are contained in the table below.

ECR Flats (PRC)	TY Costs (including piggybacks) (000)	TY Volume (000)	TY Unit Delivery Cost PRC Methodology (Cents)
Basic	$1,024,455	13,893,961	7.373
High Density	$100,679	1,886,024	5.338
Total Non-Saturation	$1,125,134	15,779,784	7.130

Response of Postal Service Witness Kelley to Interrogatories Posed by Valpak Direct Marketing Systems, Inc and Valpak Dealers' Association, Inc.

VP/USPS-T30-28.

Please refer to the responses of witness Czigler (USPS-T-1) to VP/USPS-T11-1 and 3. According to the response to VP/USPS-T11-1, IOCS tallies do not distinguish whether city carriers are casing or collating flats. According to witness Coombs, USPS-T-44 (p. 13, ll. 15-19), when city carriers have two sets of saturation flats to deliver, they sometimes will collate the flats rather than case them, because collating is more efficient.

a. When you use IOCS tallies to estimate city carrier hours spent casing, and from the hours spent casing you estimate the volume "cased," what assumptions do you make with regard to:(i) the time spent collating and the volume that is collated (as opposed to cased); and (ii) the rate at which flats are collated?

b. Since collated saturation flats are taken directly to the street as "sequenced" mail, while those flats actually cased are taken to the street as "cased mail," what assumptions do you make when using IOCS tallies for flats to estimate: (i) the total volume of flats taken to the street as sequenced mail; and (ii) the volume of collated flats taken to the street as sequenced mail?

Response

a. (i) No assumptions are made with regard to the amount of time or cost associated with collating. Since the IOCS does not distinguish between casing or collating costs, USPS-LR-L-67 regards 'pure casing' costs to include casing and collating.

(ii). For the sole purpose of partitioning ECR Saturation volume into cased or sequenced, USPS-LR-L-67 assumes that carriers case and collate pieces at the same rate (41.2 pieces per minute for letters and 27.4 pieces per minute for flats). This is done because the casing and collating costs cannot be distinguished in the IOCS.

b. (i). and (ii). The algorithm used to estimate cased and sequenced ECR Saturation volume is contained on page nine of my direct testimony. My references to IOCS 'casing' costs in Step 1 and Step 2 (page nine, lines seven through ten) include collating costs. As a result of the IOCS not distinguishing between collating and casing costs, ECR Saturation pieces that are collated are

considered cased rather than sequenced using the methodology for determining cased and sequenced volume described in my direct testimony.

Response of Postal Service Witness Kelley to Interrogatories Posed by Valpak Direct Marketing Systems, Inc and Valpak Dealers' Association, Inc.

VP/USPS-T30-29.

a. What is the unit cost for delivery of Standard letters to a post office box? If the unit costs for Standard Regular letters and Standard ECR letters differ, please provide each separately.

b. What is the unit cost for delivery of Standard flats to a post office box? If the unit costs for Standard Regular flats, Standard ECR non-saturation flats, and Standard ECR saturation flats differ, please provide each separately.

Response

a. and b. My understanding is that this information is not available.

Response of Postal Service Witness Kelley to Interrogatories Posed by Valpak Direct Marketing Systems, Inc and Valpak Dealers' Association, Inc.

VP/USPS-T30-30.

a. What is the unit cost for delivery of Standard letters by highway contract carriers? If the unit costs for Standard Regular and Standard ECR letters differ, please provide each separately.
b. What is the unit cost for delivery of Standard flats by highway contract carriers? If the unit costs for Standard Regular flats, Standard ECR non-saturation flats, and Standard ECR saturation flats differ, please provide each separately.
c. What is the volume variability of the cost of delivery via highway contract carriers?

Response

a.–c. My understanding is that this information is not available.

Response of Postal Service Witness Kelley to Interrogatories Posed by Valpak Marketing Systems, Inc and Valpak Dealers' Association, Inc.

VP/USPS-T30-31.

Please refer to your response to VP/USPS-T30-17(b).

a. Is your estimate of $165 million for the base year cost of DALs for (i) DALs delivered by city carriers only, (ii) DALs delivered by both city and rural carriers, or (iii) all DALs, including those delivered to post office boxes or General Delivery, or by highway contract carriers?

b. Is the $165 million estimate applicable only to out-of-office delivery (*e.g.*, cost segment 7 for city carriers and, possibly, cost segment 10 for rural carriers), or does it also include in-office costs in segment 6?

c. What is the volume of DALs to which your $165 million is applicable?

d. Please refer to your analysis of carrier costs as contained in USPS-LR-L-67. Please assume that the Commission were to find that the actual volume of DALs was different in the base year than the estimate you used, and a decision were made to adopt a new, higher estimate. On a step-by-step basis, referring to specific workbooks, sheets in those workbooks, and cells, please explain how the Commission would use the new estimate so that revised cost estimates were generated by the workbooks corresponding to a different volume of DALs.

Response

a. (i) No.

(ii). Yes.

(iii) No.

b. As I stated on page 11 of my direct testimony, all segment 6, 7, and 10 costs (base year estimate $165 million) attributed to DALs are included in the unit delivery cost for ECR Saturation Flats.

c. The $165 million cost estimate is applicable to 2.8 billion DALs on city routes and 1.1 billion DALs on rural routes (of which three percent are assumed to have simplified addresses).

d. A different estimate of DALs can be incorporated in USPS-LR-L-67 by changing the values of cells D11, D15, and D21 within workbook UDCInputs.USPS.xls worksheet 'DALs'. Those cells refer to the base year DAL

volume estimates for RPW, city, and rural respectively. The RPW estimate is only needed to distribute attached label 'Boxholder' volumes to shape.

VP/USPS-T30-32.

Please refer to your testimony (USPS-T-30), page 10, line 20, through page 14, line 17, and to your response to VP/USPS-T30-17(b), which sets out your estimate of $165 million for the base year delivery costs for DALs.

a. Please confirm that your testimony in this docket (USPS-T-30) discusses Detached Address Labels ("DALs") only at page 10, line 15, through page 14, line 17.

b. Please confirm that your testimony (at p. 10, l. 20 to p. 11, l. 4) explains that the In-Office Cost System attributes the costs of the DALs to letters, while the Revenue Pieces and Weight System attributes the revenue from these DALS to flats.

c. Your testimony at page 11, lines 4-5, states that this "different treatment of DAL mailings by these systems complicates the methods used to derive unit delivery costs for ECR Saturation rate categories."

(i) Please confirm that your testimony does not describe the way in which the Postal Service has historically attributed the costs associated with delivering DALs to letters rather than flats as an error, mistake, oversight, or by way of some other similar description. If you do not confirm, please state where this is described in your testimony.

(ii) In your opinion, was the way in which the Postal Service historically attributed the costs associated with delivering DALS an error or mistake or oversight resulting in overattribution of costs to ECR Saturation letters and underattribution to ECR Saturation flats (that then led to the undercharging of ECR Saturation flats, and the overcharging of ECR Saturation letters in prior dockets)?

d. Your testimony at page 11, lines 6-7, states that in "Docket No. R2005-1, all delivery costs (segments, 6, 7, and 10) associated with ECR Saturation DALs were transferred to ECR Saturation Flats."

(i) Please confirm that the cost transfer you reference had no effect on the rates requested by the Postal Service for ECR Saturation letters and flats, and that the historic overcharging of ECR Saturation letters, and the undercharging of ECR Saturation letters continued in Docket No. R2005-1, as pre-Docket No. R2005-1 rates were increased by the same percentage. If you do not confirm, please explain why.

(ii) In your opinion, did the Postal Service's decision in Docket No. R2005-1 to increase rates for ECR Saturation letters and flats by the same percentage, without making any adjustment for the costing mistake that had been identified, perpetuate rates based on historically inaccurate cost attribution and result in unfairness to ECR Saturation letters?

e. (i) Please confirm that your testimony (USPS-T-16) in Docket No. R2005-1 contains only a chart at page 6 (revised 6/17/05) and provides no narrative discussion whatsoever of the erroneous overattribution of costs to ECR Saturation letters and underattribution of costs to ECR Saturation flats (and consequent overcharging of ECR Saturation letters and undercharging of ECR Saturation flats).

(ii) Please confirm that nowhere in your or other Postal Service testimony submitted to the Commission in Docket No. R2005-1 was the historic

overcharging of ECR Saturation letters to the benefit of ECR Saturation flats relating to DALs described as being the result of a Postal Service mistake, error, oversight, or other similar description.
f. Please identify the date and circumstances of first time that you, or anyone in the Postal Service to your knowledge, became aware of this error discussed above in part d dealing with the method of attributing the costs of DALs to ECR Saturation letters.
g. Please explain whether the $165 million estimate in your response to VP/USPST30-17(b) is an estimate of the extent to which ECR Saturation letter costs would have been overstated and ECR Saturation letter costs would be understated in the Base Year, if the DAL cost/revenue mismatch had not been identified and adjusted for by you in USPS-T-30.
h. Please confirm that if the $165 million Base Year delivery cost estimate in your response to VP/USPS-T30-17(b) is divided by the number of ECR Saturation letters in the Base Year, that it would reveal the unit overstatement of costs for ECR Saturation letters that occurred in the Base Year. Please explain any failure to confirm.

Response

a. Confirmed.

b. Not confirmed. The IOCS assigns DAL costs to their host-pieces. Quoting from page 10 of my testimony, "the In-Office Cost System (IOCS) distributes tallies from DALs to their host pieces". RPW considers a DAL mailing (DAL and host piece) as one piece of mail with the same shape as its host piece. Therefore the revenue and volume of DAL mailings are included with their host pieces -- either flats or parcels.

c. (i) My testimony (page 11 line 6) only discusses the treatment of DAL costs from the instant docket and the previous docket (Docket No R2005-1). It does not include a discussion of the historical treatment of DALs in deriving delivery costs.

(ii). No, I do not believe that the Postal Service necessarily overestimated the unit delivery costs for ECR Saturation letters in previous unit delivery cost

models. Before Docket No R2005-1, the Postal Service utilized a considerably different methodology to derive unit delivery costs. The previous methodology made more extensive use of RPW volumes to distribute portions of segments 7 and 10 costs to shape. As a result, the costs distributed based on RPW volumes were not incorrectly attributed to ECR Saturation letters, since DAL volume is not included in RPW Saturation letter volume. In addition, my understanding is that segment 6 costs have historically attributed DAL costs to flats.

A useful comparison of the two methods can be found in Docket No. R2005-1, in which my testimony included the unit delivery costs from the two methods. The current methodology, which explicitly transfers DAL costs, was employed in USPS-LR-K-67 (USPS version), and the previous methodology, which implicitly transfers DAL costs by using RPW volumes rather than CCS volumes, was used in USPS-LR-K-101 (PRC version). The table below shows the R2005-1 test year unit delivery costs from each methodology.

ECR Saturation	TY06 UDC USPS-LR-K-67 (Cents)	TY06 UDC USPS-LR-K-101 (Cents)	Difference (USPS-PRC) (Cents)	Volume	Cost (Difference x Volume (000)
Letters	4.137	4.003	0.134	4,229,835	$5,659

The difference in the unit delivery cost for ECR Saturation letters is only 0.134 cent from the two versions. This difference translates into a $5.7 million difference in ECR Saturation letter delivery costs between the two methods.

Even this small difference cannot be solely attributed to an incorrect allocation of DAL costs using the previous methodology. From this direct comparison of unit delivery costs for ECR Saturation letters using the two methods, I cannot conclude that the Postal Service "historically" disproportionately allocated a material amount of costs to ECR Saturation letters due to the mistreatment of DAL costs.

d. (i) Not confirmed. I don't know. I had no role in setting rates in the previous docket.

(ii). I have no opinion on rate design issues. As explained in part c (ii), however, I do not necessarily accept your assertion that the unit delivery costs for ECR Saturation letter costs have historically been overstated by a material amount due to the mistreatment of DAL costs.

e. (i) I confirm that my direct testimony in Docket R2005-1 does not contain any discussion, other than in a footnote on page six, about the treatment of DAL costs in Docket R2005-1 or any previous docket.

(ii). Confirmed. I don't believe that the Postal Service has necessarily committed such a mistake, error, or oversight in its previous derivations of unit delivery costs.

f. I do not know the specific date. The change in the methodology to use CCS volumes to distribute subclass costs to shape was the impetus to explicitly shift segments 7 and 10 DA costs, as was done implicitly with the use of RPW for distribution in previous dockets. CCS counts DALs as letters so to distribute subclass costs to shape based on letter volumes that include DALs would result

in a higher proportion of segments 7 and 10 costs being attributed to ECR Saturation letters. The change in methodology required the change in the treatment of DAL costs, as without the transfer, the unit delivery costs for ECR Saturation letters would be between two and one-half and three cents higher (depending on which case is examined) as the table below indicates.

ECR Saturation	TY UDC (LR-L-67) Docket No. R2006-1 (Cents)	TY UDC (LR-K-67) Docket No. R2005-1 (Cents)
Letters (with Segments 7 and 10 DAL costs included)	6.191	6.665
Letters (with Segments 7 and 10 DAL costs shifted to flats)	3.205	4.137
Difference	2.986	2.527

g. I am not sure why you have posed this question in conjunction with questions about what has been done in previous dockets. I agree that $165 million is an estimate of the amount in the current case by ECR Saturation letter costs would have been overstated and ECR Saturation flat costs would have been understated if all of the costs identified with DALs had erroneously been associated with letters as opposed to flats, but that amount has no necessary relationship with the methodology used prior to Docket No. R2005-1.

h. Not confirmed. The procedure you describe would not reveal the overstatement in estimated unit letter costs "that occurred in the Base Year." No overstatement of estimated unit letter costs occurred in the Base Year. Instead, the procedure you describe relates to the overstatement in estimated unit letter

costs that *would* have occurred in the Base Year, if all of the costs estimated to be associated with DALs had erroneously been associated with letters instead of flats.

Response of Witness John Kelley (USPS-T-30) to Interrogatories of Valpak Direct Marketing Systems, Inc. Redirected from Witness Page

VP/USPS-T23-1.

Please refer to the adjustment you made to shift the costs of Basic ECR Automation letters (Commercial and Nonprofit) to the Regular (Commercial and Nonprofit) subclasses, discussed on page 26 of your testimony (USPS-T-23), beginning on line 20, and to Table 13, page 27, showing a downward adjustment for all mix changes in ECR of $164,842,000. *See also* USPS-LR-L-59, workbook "Final Adjustments2008-USPS.xls, sheet 'Inputs,'" showing
(i) a cost for mail processing in cell B41 of 4.75 cents, (ii) a cost for city carriers in cell C41 of 3.52 cents, and (iii) a cost for rural carriers in cell D41 of 1.50 cents.
a. Please state how much of the $164,842,000 is due to movement of the Basic ECR Automation letters to Regular (Commercial and Nonprofit) and how much is due to other mix changes.
b. Please provide the location in USPS-LR-L-67 of the carrier costs of 3.52 cents and 1.50 cents. Only a general reference to Library Reference 67 is shown on the 'Inputs' sheet.
c. Do the delivery costs of 3.52 cents and 1.50 cents mean that it costs 2.35 times as much to have a city carrier deliver a letter as to have a rural carrier deliver a letter? If so, why is this reasonable? If not, what do these costs mean?

Response

a. Answered by witness Page (USPS-T-23).

b. Answered by witness Page (USPS-T-23).

c. No, the unit delivery costs cited (city unit delivery cost is actually 3.54 cents) should not be interpreted to mean that it costs 2.36 (3.54/1.50) times as much to have a city carrier deliver an ECR Non-Saturation letter as to have a rural carrier deliver an ECR Non-Saturation letter. The number 2.36 is the ratio of the total test year city carrier ECR Non-Saturation letter cost to the total test year rural carrier ECR Non-Saturation letter cost ($170,150/$72,179). The respective unit costs were derived by dividing each of those total test year costs by the same originating test year volume. Summing the two unit delivery costs equals the final test year unit delivery cost found in Table 1 of 5.04 cents for ECR Non-Saturation letters.

Response of Witness John Kelley (USPS-T-30) to Interrogatories of Valpak Direct Marketing Systems, Inc. Redirected from Witness Page

What these costs mean is that it is expected, on average, that an additional ECR Non-Saturation letter causes an additional 3.54 cents of city delivery cost and an additional 1.50 cents of rural delivery costs. If you perhaps find that difficult to envision (because, in reality, any one piece is likely to incur only city or rural delivery costs, but not both), you could equally properly think of an additional 100 ECR Non-Saturation letters, which in the aggregate would be expected to add $3.54 to city delivery costs and $1.50 to rural delivery costs.

Responses of Postal Service Witness Kelley (USPS-T-30) to Interrogatories Posed by Valpak, Dealers Association, Inc., Redirected from Witness Coombs

VP/USPS-T44-27.
For saturation mailings sent to rural routes in FY 2005, what proportion used simplified addresses?

Response

This figure is unavailable. My understanding is that RCCS does not record information about the number of saturation mailings. RCCS records mail volume by compensation category. Pieces with simplified addresses or no address (e.g. host pieces of DAL mailing) are recorded as 'Boxholder'. In USPS-LR-L-67, 'Boxholder volume is distributed to rate categories in the same proportion as RPW. Three percent of DALs delivered on rural routes are assumed to use simplified addresses and, as a result, are included with ECR Saturation 'Boxholder' volume.

Responses of Postal Service Witness Kelley (USPS-T-30) to Interrogatories Posed by Valpak, Dealers Association, Inc., Redirected from Witness Coombs

VP/USPS-T44-28.
Please confirm that non-federal government agency mailers may not use simplified address on any city routes.

Response

Not confirmed. It appears that official matter mailed by State (including District of Columbia and Puerto Rico) and local governments can use simplified addresses on city routes. The specific requirements are contained in section 602.3.2.2 of the DMM.

Responses of Postal Service Witness Kelley (USPS-T-30) to Interrogatories Posed by Valpak, Dealers Association, Inc., Redirected from Witness Coombs

VP/USPS-T44-29.
Please refer to the response of witness Kelley (USPS-T-30) to NAA/USPS-T30-5(a) and explain how the "Deceptive Mail Prevention and Enforcement Act, Public Law 106-168, amending 39 U.S.C. § 3001," restricts the use of simplified addresses.

Response

Public Law 106-168, amending 39 U.S.C. § 3001, imposes obligations on companies sending sweepstakes and skill contests materials through the mail. The statute requires the companies to adopt reasonable practices and procedures to prevent the mailing of these materials to any person, who by virtue of written request, declares their intent to not receive such mailings. Although the law may not expressly limit the use of simplified addresses, it is my understanding that mailers apparently feel that the risk of non-compliance is reduced if they avoid the use of simplified addresses. The Postal Service has not determined what other approaches may be feasible to assist mailers to meet their obligations under this law.

CHAIRMAN OMAS: Is there any additional written cross-examination of Witness Kelley?

Mr. Hall?

MR. HALL: Yes. Thank you, Mr. Chairman. Mike Hall for Major Mailers Association.

I have four additional interrogatories to designate, and they are APWU/USPS-T30-1 through 3 and MMA/USPS-T30-31, which I believe was received yesterday or the day before.

I'll hand copies to the witness and ask, Mr. Kelley, have you had an opportunity to review those?

THE WITNESS: Yes.

MR. HALL: And if you were asked the questions in those interrogatories would your answers be the same today?

THE WITNESS: Yes.

MR. HALL: With that, Mr. Chairman, I'll hand two copies to the reporter and ask that they be transcribed.

CHAIRMAN OMAS: Without objection. So ordered.

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(The documents referred to were marked for identification as Exhibit Nos. APWU/USPS-T30-1 through 3 and MMA/USPS-T30-31, and were received in evidence.)

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Response of Postal Service Witness Kelley to Interrogatories Posed by American Postal Workers Union, AFL-CIO

APWU/USPS-T30-1
What are the primary drivers of differences in unit delivery costs?

Response

I will describe the primary factors that affect the unit delivery costs in a hierarchal fashion in order of importance from highest to lowest. First, the proportion of volume that is delivered by city or rural carriers affects the unit delivery costs. This is important because if a piece is not delivered by city or rural carriers, it will not incur cost segment 6, 7, or 10 costs, but will be included in the originating volume which is how unit delivery costs are derived. Secondly, the distribution of volume delivered between city and rural carriers also affects the unit delivery costs. The reason that this is important is that the costs are derived differently for pieces delivered on each route type. Thirdly, the proportion of mail that passes through DPS processing affects the unit delivery costs. On city routes, rate categories with a higher proportion of DPS volume usually incur lower casing costs, and on rural routes the unit cost for a DPS letter is lower than for a cased letter. Those three factors generally account for the differences in unit delivery costs.

While those factors provide a general description of factors that affect delivery costs, some rate categories incur a nontrivial amount of delivery costs that are rate category specific. Collection costs, for example, for First Class Single Piece letter shaped pieces is 2.6 cents per piece (out of total unit delivery cost of 7.7). However, First Class Presort and Standard Regular letters incur a trivial amount of collection costs.

Response of Postal Service Witness Kelley to Interrogatories Posed by American Postal Workers Union, AFL-CIO

APWU/USPS-T30-2
What is the average unit delivery cost in the base year and the test year of letter mail that has been delivery point sequenced?

Response

I was unsure to which rate categories your question referred. The unit costs for letters that pass through DPS processing will vary by rate category. I chose to derive the unit delivery costs for First Class Presort and Standard Regular DPS letters. The results are included in the table below.

Rate Category	DPS %[1]	BY05 Unit Cost (DPS Letter) (Cents)	TY08 Unit Cost (DPS Letter) (Cents)
FC Presort	84.95%	2.864	3.127
Std Regular	81.56%	2.580	2.832

[1]DPS % derived from carrier systems

Response of Postal Service Witness Kelley to Interrogatories Posed by American Postal Workers Union, AFL-CIO

APWU/USPS-T30-3
What is the average unit delivery cost in the base year and in the test year of letter mail that has not been delivery point sequenced?

Response

I was unsure which rate categories your question referred. The unit costs for letters that do not pass through DPS processing will vary by rate category. I chose to derive the unit delivery costs for First Class Presort and Standard Regular Non-DPS letters. The results are included in the table below.

Rate Category	Non-DPS %[1]	BY05 Unit Cost (Non-DPS Letter) (Cents)	TY08 Unit Cost (Non-DPS Letter) (Cents)
FC Presort	15.05%	9.271	10.018
Std Regular	18.44%	7.380	8.069

[1]DPS % derived from carrier systems

Response of Postal Service Witness Kelley to Interrogatories Posed by the Major Mailers Association

MMA/USPS-T30-31

Please refer to your response to Interrogatory MMA/USPS-T30-28 where you confirm your previous computations regarding the removal of collection costs for First-Class single piece letters. Please review the computations provided in the table below and confirm that the resulting test year unit costs for First-Class single piece, Nonautomation and Automation letters have been correctly derived with and without collection costs and per originating piece and per delivered piece. If you cannot confirm that these computations reflect your delivery cost results, please explain why and provide corrected computations.

	(1)	(2)	(3)	(4)
First-Class Letter Category	RPW Volume (000)	City Carrier + Rural Carrier Delivered Volume (000)	Total Delivery Costs With Collection ($000)	Total Delivery Costs Without Collection ($000)
Single Piece	34,594,330	21,167,692	2,675,500	1,782,394
Nonautomation	1,715,306	1,536,874	80,558	80,558
Automation	45,767,558	41,006,672	1,896,595	1,896,595
Presorted	47,482,864	42,543,546	1,977,153	1,977,153

		TY Unit Costs (Cents)		
	(5)	(6)	(7)	(8)
First-Class Letter Category	Unit Delivery Cost With Collection Per Orig Piece	Unit Delivery Cost With Collection Per Delivered Piece	Unit Delivery Cost Without Collection Per Orig Piece	Unit Delivery Cost Without Collection Per Delivered Piece
Computation	(3) / (1) * 100	(3) / (2) * 100	(4) / (1) * 100	(4) / (2) * 100
Single Piece	7.734	12.640	5.152	8.420
Nonautomation	4.696	5.242	4.696	5.242
Automation	4.144	4.625	4.144	4.625
Presorted	4.164	4.647	4.164	4.647

Sources:

(1) USPS-LR-L-67, UDCModel.USPS.xls, p. 2
(2) MMA/USPS-T30-19, MMA.19.attach, p. UDCMMA19
(3) USPS-LR-L-67, UDCModel.USPS.xls, p. 2
(4) S.P.: MMA/USPS-T30-28. MMA.13.rewrite.collect.xls
Nonauto and Auto: Col (3)

Please include in your response the derivation of, and sources for, any corrected computations

Response of Postal Service Witness Kelley to Interrogatories Posed by the Major Mailers Association

Response

Confirmed.

CHAIRMAN OMAS: This then brings us to oral cross-examination. Six participants requested oral cross.

Advo will be the first. Mr. McLaughlin, would you introduce yourself for the record, please?

MR. MCLAUGHLIN: Yes. I'm Tom McLaughlin representing Advo, Inc.

CROSS-EXAMINATION

BY MR. MCLAUGHLIN:

Q Good morning, Mr. Kelley.

A Good morning.

Q I'd like to start by taking you back in time a couple of days to when Mr. Kiefer appeared here. I believe I saw you in the room that day. Is that correct?

A Yes.

Q Do you recall Mr. Baker for NNA cross-examining Mr. Kiefer and introducing several cross-examination exhibits?

A To some degree, yes.

Q The third of his cross-examination exhibits included some cost figures for, among other things, ERC saturation flats.

When it became my turn to cross-examine I asked Mr. Kiefer if those costs for saturation flats

assumed the conversion of DALs, detached labels, to on-piece addressing. In other words, a status quo.

He said he thought that was the case, but that he had gotten the numbers from you and that I should ask you. Can you tell me what your assumption was?

A That is my assumption in this case.

Q So another way of stating that would be that the cost estimates you gave him, by assuming zero conversion, don't reflect any cost savings that might accrue from elimination of detached labels? Is that correct?

A That's correct.

Q Now I'd like to turn to Valpak Interrogatory T30-17.

A I'm there.

Q There you provided an estimate of the costs of detached labels, the aggregate cost of detached labels in the base year, and you estimated that was approximately $165 million?

A That's correct.

Q So that is a base year and not a test year figure?

A That's a base year figure.

Q Do you happen to know what the test year

figure was?

A No, I don't.

Q Okay.

A Let me just check if you don't mind.

Q Okay. Test year before rates.

A Right. I mean, what I'm checking on is the LR-67 summary test year spreadsheet. I believe it's about $187 million.

Q Going back to the $165 million base year cost, that's the aggregate dollar cost. What is I guess the average cost per piece of a detached label in the base year?

A That figure is in here. It's about 3.6 cents. That's per originating piece.

Q Okay. Now, in that same response you express some reservations about --

A We're back to Valpak 17 now?

Q Yes. Yes, we're back on Valpak-T30-17. You expressed some reservations about how much of that I guess you're talking about an average 3.6 cents you're going to save if detached labels convert.

I wanted to now go over to POIR No. 8, Question 14, where you talked about that some more, your reservation.

A Okay. I'm there.

Q Basically what you're talking about here is that there is some degree of uncertainty as to how much of that $165 million of detached label costs you'd be able to save if detached labels left the system. Is that correct?

A That's true. I broke it up into two parts, cities and rural, for that response.

Q Okay. I was having a little bit of difficulty understanding exactly what the nature of your concern was. I'd like to refer you to the second page of your response to 14, POIR No. 8, Question 14(b).

A Okay. I'm there.

Q There you draw a dichotomy between a situation where only five percent of the detached labels in the system convert to on-piece addressing versus a larger conversion, say 50 percent. Do you see that?

A Yes. Yes, I do.

Q You say your comfort level decreases as the proportion of detached labels that convert increases. Is that what you say there?

A Yes. My comfort level decreases in applying a one-to-one, an exact one-to-one proportion.

Q Okay. I guess my confusion is are you

talking about your comfort level with respect to unit cost?

You're concerned that the unit cost savings would change as volume increases, or are you talking about the aggregate cost savings being less certain because you're dealing with a bigger volume?

A You said volume. We're talking about a DAL volume decrease, right?

Q Yes. I'm sorry. You're right.

A Okay. All I'm really saying there is I guess on the city route side I would say I'm just illustrating more of a mathematical fact that the difference between a one-to-one savings, a small difference between that and say close to a one-to-one savings, a small difference isn't that great.

As the proportion gets larger that small difference in percentage terms can grow. You know, it's really just a mathematical thing.

Q Okay. Let me try to restate this. I'm not sure I understand, but let me try it.

Are you saying basically that if just a few detached labels convert to on-piece addressing that whatever the savings are and whatever that margin of error is, it's not that important in the big world because you're dealing with a small volume, but when

you go to 50 percent you become a little bit more concerned because there you're dealing with bigger numbers?

A No, I don't think so. Let me try an example. This might help.

Let's say I guess this has a five percent. Let me just make it a 10 percent for round numbers. A 10 percent, if you just apply the proportional estimate one-for-one you're going to say 10 percent of the dollars.

You know, what I'm saying is let's say the savings is maybe 90 or 95 percent, not 100 percent, so the difference between the proportional estimate and maybe an estimate that could have leakage -- it's possible -- isn't that great so I'm comfortable with the proportion.

Now, if you get to say 70 percent now you say well, 90 or 95 percent of 70 percent is 63 to 66 percent, so there's just more of a gap there -- that's all -- in absolute terms. That's all I was trying to point out there.

Q So you're focusing on the absolute amount as opposed to --

A Yes, the absolute difference.

Q -- a unit cost, a change in the unit cost so

much?

A Yes.

Q Okay. Now, the other I guess this is not a difficulty I had with your answer, but is just sort of a -- I guess I'm not quite sure how much of a concern you have here. There's just a general statement that, "As the volume grows, I'm less comfortable."

In terms of the amount of the detached label costs that you would expect could be captured, taking into account some uncertainty, are you talking about recapturing 10 to 15 percent of that cost or 40 to 50 percent of that cost or 80 to 90 percent of the cost? Can you give us a little benchmark there? What's your level of comfort?

A Well, I would expect we would recover the vast majority of the cost, and I use Witness Coombs' statement there, which I said in that response I have no reason to disagree with that statement basically to the effect that the cost is -- well, maybe I should read the statement instead of paraphrasing, which is back in 13, POIR No. 8, Question 13.

This is from her testimony. Witness Coombs says, "Experience in today's delivery units suggests that the sequenced flat-shaped pieces will be taken directly to the street in most cases. This tends to

validate the belief that the handling of these flat-shaped pieces is unaffected by the presence or absence of a DAL."

I have no reason to doubt that, and I think the savings would be recovered, the vast majority of the savings. I was just merely illustrating a mathematical fact.

MR. MCLAUGHLIN: Okay. Thank you very much.

Mr. Chairman, that completes my cross-examination.

CHAIRMAN OMAS: Thank you, Mr. McLaughlin.

Mr. Olson?

MR. OLSON: Thank you, Mr. Chairman.

CROSS-EXAMINATION

BY MR. OLSON:

Q Mr. Kelley, Bill Olson representing Amazon.com. Since we only asked you one question, that's the question we're going to ask you some questions about. Could you turn to No. 1?

A I'm just having trouble finding it, even though there's only one. Okay. I have it. Sorry.

Q In Parts (d) and (e) of that interrogatory we ask you to look back at what Witness Bradley did in R2005-1 where he developed separate volume variabilities for larger parcels and accountables, and

then he had a line where he combined them.

We asked you to give us that information for BPM and then media mail and library mail, correct?

A Yes. Well, okay.

Q For base year 2005.

A Yes.

Q Media mail and library mail are together because that's the way you do costs, correct?

A Yes.

Q Okay. The numbers that you provide in response to (d) and (e), just to clarify, are they city and rural carrier costs?

A That's where I was a little confused with your earlier statement. No, those are just city. That's CCCS.

Q Okay.

A That's city carrier cost. The reason I did that is because Witness Bradley's was a Segment 7 model.

Q Good. Okay. So they are consistent with what Witness Bradley did?

A Yes.

Q In that sense. When we talk about city routes, the big four are foot routes and curbline and park and loop and dismount, correct?

A That's my understanding.

Q What about parcel routes or parcel post routes? How do they fit into that?

A Well, I think you're referring to special purpose routes.

Q Special purpose routes, SPRs.

A They are a component of Segment 7. They were not part of this analysis. They are incorporated in the LR-67 delivery costs, but Witness Bradley's model that you're referring to was just for regular letter routes.

Q Okay. So you're saying that these SPR routes are city carrier routes, but they're not included in these data?

A Right. They were not updated. When you say these data, you mean these volumes right here?

Q (d) and (e).

A Yes. They do not include the SPR numbers. These just directly come from the city carrier cost system, which samples regular letters.

Q What is a combination route? Is that a term that's --

A I'm probably not the right person to ask.

Q Okay.

A I mean, I have some notion of it, but I'm

not really confident enough to talk about that.

Q In your response to our Question (b) you say the base year volume variable regular delivery time cost per large parcel delivered on city letter routes is 26.81 cents, correct?

A Yes.

Q And that again does not include SPR routes, correct?

A That's true, yes.

Q If the SPR routes are not measured in the CCCS, how do they get folded into the cost?

A Well, it's from a previous study, the distribution case. I think it's R97.

It's part of the Cost Segment 7 spreadsheets, and it's also in the LR-67 if you look on Spreadsheet 13, City Costs. That's probably the easiest place to look to see the impact.

Q Would it be fair to say that SPR routes handle only what you identify as large parcels, as opposed to small parcels?

A I really don't know enough about special purpose routes to comment on the actual -- what they're delivering. That seems to be an operations question.

Q Do you know the unit cost for large parcels

that are on these special purpose routes?

A Well, just to clarify, special purpose routes would not have a small and large distinction because it goes back to I think -- I'm fairly confident -- the R97 special study, so there isn't a small and large distinction that you have in the city.

I mean, I guess you're asking me maybe -- they're in 67. You can find them. I can point you to where. I don't know them off the top of my head. Some of these printouts are rather small here.

Q Yes, they are.

A The spreadsheet, if you want to look, is in City Costs. It's called City Costs. These are base year figures.

Okay. Which category do we want to talk about again? I'm sorry.

Q Well, I guess parcels on SPR routes.

A For media mail or bound printed matter?

Q Both.

A Both? Okay.

Q Yes.

A For the delivery part it's $12.3 million for bound printed matter and $6.4 million -- this is just for parcels -- on media mail, and then there's some support costs to go along with that that feed off

that.

Those are for bound printed matter $4.1 million and for media mail $2.2 million. You know, there can be a couple other little things for SPR routes.

Q Before you turn that page away, if you could just give the page reference for the record? Is there a way to do that?

A It would have been good to number it. It's in UDC Model, the spreadsheet. It's in 67, UDC Model, and the title is Worksheet 13, City Costs.

Q Okay. I'm sure we can find it from that. One last thing. On (b) and (c) you provide the base year data, and you say that the corresponding test year unit cost is unavailable in both instances, correct?

A Yes.

Q I had thought we rolled forward everything from the base year to the test year. Is there some reason that the costs of delivering these parcels is not rolled forward?

A Again, since your question referred to Witness Bradley's model I thought you were talking about just Cost Segment 7, just regular letter routes. That doesn't transfer over.

The total delivery cost transfers over, and actually even the Segment 7 costs transfer over. You can find that in -- I can probably tell you what those are. Maybe not. I could tell you what the 7.1 are, but that would be in Summary TY.

I guess that's the distinction there. We don't roll over the letter route and special purpose route separately, but we do roll over the combined.

MR. OLSON: Okay. That's fine. Thank you so much.

That's all I have, Mr. Chairman.

CHAIRMAN OMAS: Thank you, Mr. Olson.

The American Postal Workers Union, AFL-CIO, Mr. Anderson?

MS. WOOD: Mr. Chairman, Mr. Anderson couldn't be here today. My name is Jennifer Wood, and I'll be representing the American Postal Workers Union.

CHAIRMAN OMAS: Thank you very much. Please proceed.

CROSS-EXAMINATION

BY MS. WOOD:

Q Good morning, Mr. Kelley. My name is Jennifer Wood, and I'm here representing the American Postal Workers Union.

A Good morning.

Q You'll have to excuse me if I sort of overview this microphone.

First I just have a couple questions for you, and the first one is are you the delivery operations expert in this case?

A No, I'm not.

Q Do you know who is?

A I believe that's Witness Coombs.

Q Thank you. All right. I'd now like to turn your attention to page 5 of your testimony where you say that you're assuming that 10 percent of DPS letters require casing and incur some direct labor casing costs.

Now, I was a bit unclear from that comment as to whether that applied only to the city delivered DPS percentages or if it was the total DPS percentages. Could you please clarify that for me?

A It was for the total.

Q Okay. Can you explain again quickly how you got that 10 percent figure?

A Well, I alluded to it in POIR No. 3. Let me find it. POIR No. 3. Yes, POIR No. 3, Question 2.

As it says there, some of it is due to moving or address changes as it says in the testimony,

and it was based on consultations with delivery operations personnel, but it is a judgmental estimate.

Q Okay. All right. Now I'd like you to turn to your library reference, specifically the DPS percentage sheet and your response to MMA/USPS-T30-10.

Specifically I'm just asking a question about that data. I'll give you a minute. Sorry.

A I'm having trouble with the alphabet. Is that 10? MMA-10?

Q Yes.

A I'm there.

Q So when I look at this data it appears that the percent of letter mail that is delivery point sequenced for rural carriers is lower than the percentage of DPS for city carriers. Would you agree with that statement?

A Yes.

Q Could you explain what you think accounts for those differences?

A Well, as I look at it there we're talking about first class single piece. We're comparing 72.1 percent to 70 percent. That seems to me a pretty small difference. I don't know if I could explain such a small difference really there.

Q Mr. Kelley, I believe you were just

previously explaining how certain percentages, even if small, can actually be large based on -- I wasn't 100 percent clear what you were getting at, but there was something with just because it is a small percentage it doesn't necessarily mean it has a small effect. You have no idea what could account for it?

A I don't think that really characterizes my answer from the previous question that you alluded to, but you're asking me to explain 72.1 percent compared to 70 percent.

I mean, these are inputs from the carrier systems. I'm not an operations expert. These are strictly inputs.

Q Okay. Do you know how that is still true for the workshared mail, the rural versus city?

A That's what true? I'm sorry.

Q That the rural is less than the city.

A Is that true?

Q For workshared mail as well.

A Are you asking me if it's true?

Q Yes, and if so how or to explain why.

A I haven't really studied that specifically. I'm not even sure that it is true. I'm not saying it isn't. I just don't know.

Q Okay. All right. Now I'd like to turn your

attention to APWU/USPS-T30, Questions 2 and 3.

In your response to Question 2, your estimates of unit delivery cost for DPS first class presort and standard regular mail are quite similar, but if you turn to your response to No. 3 regarding non-DPS letters the cost for standard regular are about two cents per piece lower than that for first class presort. Could you please explain what accounts for this larger difference in the non-DPS group?

Mr. Kelley, could you please tell me what you're looking at right now?

A I'm looking at UDC models. The spreadsheet is In-Office Base Year is what it's called. I think it's Spreadsheet 17.

The difference really is if you look over the difference per piece for -- you asked me to compare first class presort and standard regular, right?

Q Yes.

A Okay. It's 5.4 cents per CCS piece for first class presort and 3.8 cents for standard regular. Pieces that don't go through DPS processing have to be cased. That's the discrepancy in the cost there.

Q So it's just based on their need to be

cased?

A Well, the casing costs are higher for first class presort. That's reflected in the unit cost for non-DPS'd letters.

Q Okay. Could you explain why the casing costs are higher for the presort or for the non-presort?

A I don't really have a notion on that. These are inputs from IOCS.

Q Okay. Now, is it your understanding that delivery point sequencing focuses on letter mail and that flat mail is not DPS'd?

A That's my understanding.

Q By the way, have you ever gone out to the stations and branches to observe the delivery operations?

A Yes, numerous times.

Q Have you ever looked through the mail that comes in for delivery that has not been DPS'd, the mail that requires casing?

A Yes.

Q Could you explain what types of mail that tends to be just based on your observations?

A I don't know if I can characterize it in any specific way really. I mean, I've looked through a

lot of mail. I don't know if I can put any characterization on it.

Q Would you say there's a lot of clone in type address first class business mail in that group?

A Mostly when I was looking through that mail I was looking for DALS so I really don't -- I just don't think I could really give an answer to that. I'm not really an expert, but I have looked through it.

MS. WOOD: Okay. I'm sorry. Just give me one second.

(Pause.)

BY MS. WOOD:

Q We've talked to a couple of branch clerks and carriers, and there seems to be a variation in the volume that they get for -- actually, I might need to rephrase that.

As I say, we've talked to some clerks and carriers, and there seems to be a difference, a large difference, in the number of flats that need to be cased versus the regular letters. I'm wondering if you have any explanation for that variation in the volume?

A My understanding is that flats need to be -- I mean, unless they're taken directly to the street

would need to be cased because they're not DPS.

Q So it's solely based on the DPSing?

A I'm not really an expert in that.

Q Have you ever looked at the letters to flats ratio to consider -- actually, never mind. I think that did answer my question. Have you ever looked at that?

A The letter to flat ratio?

Q Yes.

A In terms of being cased?

Q Yes.

A No.

MS. WOOD: All right. Thank you. That's all I have. Thank you.

CHAIRMAN OMAS: Thank you, Ms. Wood.

Next is Mr. Hall, Major Mailers.

MR. HALL: Mr. Chairman, I think based upon the designations I made today I have no further cross-examination for the witness at this time.

CHAIRMAN OMAS: Thank you very much, Mr. Hall.

Mr. Baker?

CROSS-EXAMINATION

BY MR. BAKER:

Q Good morning, Mr. Kelley. I am William

Baker appearing on behalf of the Newspaper Association of America.

A Good morning.

Q As noted earlier this morning, you were here when I cross-examined Kiefer, and one of the things I asked him about was that your Library Reference 67 has presented unit delivery costs for basic and high density ECR flats that have been aggregated into a single category called non-saturation. Is that correct?

A That's correct.

Q In the past cases they have been presented in a disaggregated way, haven't they?

A Yes, that's my understanding. I mean, definitely in 2005.

Q You were asked a couple interrogatories about that, and in Valpak-25 you said that no one had told you that they needed this aggregated rate category cost for non-saturation categories by shape.

My question is was that your conclusion? I'm just wondering how that happened to be presented in that way.

A Well, that was my understanding of what was necessary for rate purposes.

Q Okay. What was the basis for your

understanding of that?

A Meetings with rate personnel, rate design personnel.

Q Okay. Did any rate design personnel actually tell you to present it in an aggregated manner?

A I certainly thought so. I thought we had an understanding.

Q Okay. Well, Mr. Kiefer, in response to an interrogatory, said it wasn't him.

A Yes, I'm aware of that. We had a phone conversation about that.

Q Okay. Do you know who it was?

A No, I don't.

Q Okay. Next time would you disaggregate them for us?

A Well, I did disaggregate them at your request.

Q Thank you. I had a question about one of the interrogatories we asked you where you had disaggregated the data, and that is NNA-8. Do you have it?

A Yes, I'm getting there.

Q Okay.

A Yes, I'm there.

Q Okay. And here you were asked to disaggregate ECR basic high density and saturation letters and flats between city and rural delivery, is that right?

A Yes.

Q And I guess you feel pretty confident about these numbers? Are these pretty solid numbers you think?

A Yes.

Q Okay. Well, I noticed in the test year line for ECR flats, rural costs, that the unit delivery cost of saturation flats is higher than for high density flats. That is, the rural saturation flats are estimated to be higher cost for delivery than the high density flats. Do you see that?

A Are you comparing the $235 million to the --

Q No, I'm looking at unit.

A Oh, unit costs.

Q The 2.15.

A Saturation is higher than the high density, yes.

Q Okay.

A 2.154 to 1.743?

Q Yes.

A Okay.

Q Are those correct numbers, do you think?

A To the best of my knowledge they're correct.

Q Do you have any idea why the saturation unit cost is higher than the high density unit cost on these rural routes?

A I mean, I'd have to investigate a little further. A possibility? Of course, the DAL costs are in there, so it's a possibility.

Q So that includes the DAL costs?

A It does include the DAL costs.

Q Okay. All right. Do you happen to know offhand whether there are more or fewer high density flats on rural routes than there are saturation flats?

A Did I answer a question on that? If I didn't answer a question on that, I don't know off the top of my head.

Q Do you have those volumes in your spreadsheets?

A No, because I aggregated them to the non-saturation level.

Q Okay.

A I may have answered a Valpak question on that.

MR. BAKER: You may have. Okay. I want to move on.

I actually have a request of Mr. Koetting. That number, the 2.154 cents for rural unit delivery cost saturation flats. If the witness would just double check that number and confirm for us whether that's the correct number, I would appreciate that at a reasonable time. Is that something he could do?

CHAIRMAN OMAS: Would you repeat the request, Mr. Baker?

MR. BAKER: I asked the witness whether the test year unit rural cost for saturation flats in response to NNA-8, which he set at 2.154, if he felt that was -- really my question is this: Does he feel that is a correct number, or does he feel he needs to research it a little more to be comfortable that is the correct number?

If he thinks it's the correct number now then I would withdraw the request. If he thinks he needs to research it a little bit to be sure, I'd appreciate him doing that if he could.

CHAIRMAN OMAS: Mr. Kelley, can you answer that question?

THE WITNESS: I do feel it's the correct number.

MR. BAKER: All right.

THE WITNESS: Actually, it was Advo-1. I

don't know if you want to rephrase your previous question about the rural volumes. I may have those if you still want them.

MR. BAKER: All right. I can find them at this point.

THE WITNESS: Okay.

BY MR. BAKER:

Q All right. I want to ask a few questions about DALs as well.

I believe Mr. Kiefer used a figure which he said he got from you that about 40 percent of ECR saturation flats used DAL. Does that sound about right to you, somewhere around 40 percent?

A That's in the ballpark.

Q Okay. So if that's the right number, give or take a few percent maybe, that would mean about 50 percent of DAL saturation flats today use on-piece addresses?

A Yes.

MR. KOETTING: I'm sorry. I thought you said DAL saturation flats. I may have misheard you.

MR. BAKER: I did misspeak, didn't I?

BY MR. BAKER:

Q The question is 60 percent of the saturation flats would use on-piece addressing then?

A Yes.

Q All right. Thank you. Now, earlier this morning Mr. McLaughlin asked you a couple questions about your response to POIR 8, Question 14. As it turned out, he asked many of the same questions I was going to ask so we can skip a little bit of that.

I wanted to follow up on one of the answers you gave him. He had asked you a question about the cost. I think his phrasing was something along the lines of costs being recaptured if the DALs converted to on-piece addressing. Do you remember that discussion?

A Yes.

Q You used the test year figure with an estimated $187 million of DAL costs in the system, so I'm asking what was your understanding of what costs would be recaptured?

A Yes. The understanding I had was the vast majority of costs, DAL costs, would be captured, the vast majority proportional to the number that --

Q So those costs would just vanish?

A Yes.

Q Okay. I think you had used the figure for the test year of $187 million of DAL costs, so if say 50 percent of the DALs converted to on-piece

addressing you would expect the Postal Service to save maybe not half of the $187 million, but much of that half of that $187 million?

A Very close to half, yes.

Q Okay. Are there likely to be any additional costs that might be incurred in handling the flats now that they would have addresses on them?

A I have no reason to think so, especially in light of Witness Coombs' statements. The handling is unaffected by the presence of a DAL.

Q Okay. So you don't think there are any offsetting additional costs that might be incurred in the system somewhere?

A Again, there could be. I don't have any reason to doubt that.

MR. BAKER: Okay. Thank you, Mr. Kelley.

Mr. Chairman, I have no more questions.

CHAIRMAN OMAS: Mr. Baker, thank you very much.

Mr. Olson?

CROSS-EXAMINATION

BY MR. OLSON:

Q Mr. Kelley, Bill Olson this time for Valpak. We'll get to those DALs that you were searching for in a minute, but let's start with your answer to 1(a).

A Valpak-1(a)?

Q Yes. This is just a question about nomenclature.

In your response you say in the second paragraph, "Cell D9 is an estimate of the ECR regular letters (non-sequence) delivered by city letter carriers for FY 2005," correct?

A Yes.

Q You used the word "regular" a lot in your testimony and your answers, and I'm trying to get at when you say ECR regular letters does that always mean non-sequenced letters?

A Well, the term "regular" refers to the delivery sections, the regular delivery sections that you'd be on. Yes, that does refer to non-sequenced.

Q And non-sequenced means --

A Has its own cost pool.

Q Right. Non-sequenced means --

A Excuse me. Let me clarify that. Sequenced has its own cost pool.

Q And sequenced means it's taken out as a third bundle directly to the street, correct?

A (Non-verbal response.)

Q Did the reporter get your last answer? Yes?

A Yes.

Q Okay. In 11(a) I want to ask you a similar question. We say, "Is it your position that the Cell E9 amount is something other than an estimate of the marginal street cost of letters?"

If we go to your answer you say, "Yes, it is something far more specific. The unit cost of Cell E9 does not represent the total marginal street cost of letters. Instead it represents the regular delivery cost incurred by cased and DPS'd ECR letters on letter routes...", et cetera, correct?

A Yes.

Q Okay. So is your only disagreement with our question the fact that we in our Question (a) did not put the word "regular" before letters?

A Yes. I guess I thought your Question (a) was referring to all street time. I'm just saying it's a subset of that.

Q Okay. So if we had said of the marginal street time of regular letters then you would have agreed with it?

A It's regular delivery. It's called regular delivery cost, so it's cost incurred in delivery sections of regular letters, non-sequenced letters.

Q Back to our question. Other than an estimate of the marginal street cost of regular

letters. Wouldn't that be a way to say it?

A No, because the street costs would incur -- the costs you're talking about would include support costs and some other things.

Q Okay.

A We're just talking about basically within the delivery section the process of delivering or driving.

Q Okay.

A Whatever happens within those sections.

Q Okay. In 11(c) where we discuss Witness Milanovich we got a response from you where you disagreed with the premise, this definitional premise in (c)(1), but you add onto your answer, "However, the volume referred to by Witness Milanovich is originating volume."

My question is what does that clarification tell me that I didn't know before? Why is that relevant?

A I don't think I disagreed. You said do you disagree, and I answered no.

Q Right. Then you go on to point out that Milanovich is talking about originating volume. I just don't know what the relevance of that is.

A I was just making the point that that's how

we do our product cost, per originating piece. That's how it's done in the CRA, and that's how it's done in 67. I just wanted to make a distinction between originating and delivered volume.

Q Sometimes when witnesses volunteer information you don't know what the purpose is. You were trying to explain that point. That's fine.

In (c)(2) we ask you, "Do you believe the volume variable regular delivery time cost per letter to be something different from the volume variable cost of letters divided by the corresponding volume of letters?"

I think the same problem occurs here, does it not, that it did before that your concern is that we didn't describe the volume variable of regular cost of letters?

A Well, the 1.81 seconds or 1.81 cents, however we're using that, is per CCCS piece, not per originating piece. That's derived per delivered piece on city carrier.

That was (c)(2), right, that you were talking about?

Q Yes, (c)(2).

A Basically what I did was just explain what that unit cost was; that it's the ratio of volume

variable regular delivery time cost to the estimated regular letter volume.

Q And the emphasis in your comment there should be on the word regular, I take it?

A I guess I was just trying to make the distinction that that cost is based on city delivered volume, where in (c)(1) we want to emphasize originating volume.

Q Okay. Let me ask. We asked you in the last interrogatory, T-32, about DALs and how they had been handled in the past.

I don't have in mind the name of this, but each year they do a count of rural carriers, national rural carrier mail count.

A Rural mail count.

Q Something like that. That's the basis for setting pay for rural carriers, isn't it?

A I have a vague notion of that, yes.

Q Okay. Let's go back to R2001-1 for a moment, if you can put yourself in that timeframe. The Postal Service obviously conducted an annual national rural carrier mail count, if that's the name.

Isn't it true that they used that for the purpose of distributing attributable cost to classes and subclasses in that docket?

A I'm not sure going that far back.

Q Do you know how addressed DALs were handled in that mail count?

A In R2001?

Q Yes.

A No.

Q I'm sort of surprised you don't have that factoid in mind because we had this problem, you'll recall, in R2005-1 where you submitted two different charts in your testimony, correct?

A Yes.

Q And in one of those the cost of DALs was included in the ECR saturation flats and one the cost was included in ECR saturation letters, correct?

A Yes. In the USPS version? Right.

Q And you were attempting to show that --

A Let me just clarify. That's Segment 7 and 10 costs only.

Q Okay. You were attempting to explain that an adjustment had to be made because we had a mismatch here.

We had a situation where the revenues from flats with DALs were being attributed to flats or were being credited to flats, but on the other hand the cost of those DALs in the rural carrier system and the

city carrier system were being considered letter shaped pieces. Isn't that correct?

A I mean, again I'm trying to find my answer there. The reason that it was so important to change it in R2005 was because we decided to use city and rural volumes to distribute the cost rather than in the past where RPW was used much more widely to come up with these delivery costs.

Once we made the decision to use city and rural volumes then the decision to shift Segment 7 and 10 DAL costs became almost mandatory because the results otherwise were a little bit out of whack.

Q And the decision to use city and rural volumes was first made in R2005-1?

A Right. That was from a change from -- yes. I mean, city and rural volumes were used a little bit in R2001, but, yes, the decision to shift over, the methodology shift, was in R2005.

Q Okay. Your response to 32 discusses this greater use of RPW data a couple of times, correct? You mention that?

A Right. In the previous year.

Q What I don't understand is in the RPWs they don't count DALs, do they? They just count the host piece if there's a DAL.

A Right. Yes.

Q So there's no data whatsoever about DALs in the RPW system, correct?

A Correct.

Q We've asked about that, and there was no way to get any data.

A I mean, going back in time I think we've started collecting that, but yes.

Q Right. About a year ago I guess the data started being collected and put on the standard mail entry forms. Eventually some of that will bubble forward to the surface and get on the record, I guess. Perhaps not yet.

What I'm trying to get at is if DALs aren't counted in RPW data, how is it that your prior methodology where you said you gave greater weight to RPW data factored out this problem of the cost of DALs being attributed to letters when they should have been attributed to flats?

A Well, because the RPW figures weren't affected by the number of DALs so it wouldn't disproportionately allocate costs to letters if you just used RPW proportions because those are the true ECR saturation letter proportions because the DALs aren't in there.

Q I take it you would at least concede that the way you're doing it now where you make this adjustment, that this a more accurate method?

A Yes. That's because really right now it's a disaggregation of the CRA. The CRA distributes Segment 7 and 10 costs based on city and rural volumes, so to disaggregate that we should use city and rural volumes. You know, as it flows through the process transferring DAL costs comes about.

Q I don't think I asked this specifically, but it's true that in R2005-1 without the adjustments that you made in your testimony that the cost of DALs in the city carrier system would have been also assigned to letters, correct, instead of flats?

A I don't think I understand that question.

Q Is it your understanding that in R2005-1 that without the adjustment that you made that the cost of handling DALs in both the city and the rural carrier systems, both systems, was being attributed to letters and not flats?

A For Segments 7 and 10 because both city and rural count the DALs. It's included in their letter volume, so yes.

Q And if we take that back one case to R2001-1, wouldn't that same phenomenon have occurred?

A Well, if you go back to R2001, first of all, you're talking about a different Segment 7 model altogether.

Q Right.

A There were crosswalks and a lot of other things.

I guess what I was trying to point out in 32 is that RPW is used a lot more extensively and so there may be some impact, but it's certainly not the dramatic impact that you would have seen in Table 1 from R2005 with the comparisons there that I had.

Q Okay. Let me ask you to look at your response to 1(b). Actually, I think I can get at this if we just go to 11 instead of 1. 11(j)(2).

A I'm not quite there yet. Okay.

Q We asked you to step back and look at the data. We said based on your understanding of carrier operations, and I think in your response to Valpak-15 you said you've seen enough carriers to be able to step back and make some observations about what makes sense and what doesn't make sense, correct?

A Wait a minute. In 15 did I say that?

Q I think it was 15. In (a)(2) you say, "I believe that my understanding of carrier operations gives me the ability to question the seemingly

anomalous results.

A Yes. I'm more comfortable with that than what you just said.

Q Okay. Well, wouldn't that mean that you're able to comment on the reasonableness of data?

A I feel I'm sufficiently competent to do that, yes.

Q Okay. Let's do that. Question (j) says, "Based on your understanding of carrier operations, please discuss whether among letters, flats and sequenced mail you would expect different marginal costs of driving, walking..." and we referred back to Interrogatory 1 that I just skipped.

We say first do you believe these portions of marginal costs should be the same or approximately the same, and then we ask you do you believe that the activities are probably different.

Let's look at your response to that question, (j)(2). You say, "I believe the volume variable regular delivery costs per delivered letter, flat and sequenced letter and sequenced flats found in LR-67, Worksheet..." et cetera, "...to be reasonable."

Okay. That's your conclusion, correct, that the costs that you see there are reasonable?

A Yes.

Q Okay. The costs in 67, just to summarize the ones I'm focused on, if you can accept these subject to check? Regular letters was 1.81 cents; regular flats, 1.98 cents; and then sequenced letters, 1.22 cents; and sequenced flats, 1.33 cents.

A Yes. Those are the costs per CCS piece in regular delivery sections of letter routes. I'll accept that.

Q Okay. So they generally show the sequenced pieces, the ones that are taken directly to the street, have a lower cost by a significant amount than regular letters and flats. I'm not focused on the word significant, but they're lower?

A Yes.

Q Okay. Now, your response here, and these are your reasons for reasonableness, right? You have three reasons that I can see.

You have one that says, "First...", and then at the top of the next page you say, "In addition...", which I guess correlates to number two, and then you have number three in the middle of the next page.

Okay. Let's just talk about these. You say, "It seems plausible to me that an additional regular letter or flat is more likely than an additional sequenced letter or flat to cause an

additional access within a zip code," correct?

A Yes.

Q Okay. Now, let's talk about that factor. By trying to explain the reasonableness of this, each one of these factors seems to be an explanation for why these regular letters are more expensive to deliver than the sequenced letters and flats.

A Yes. I think that's the last line of the response. "...are reasonable estimates, especially the result that regular letters and flats have a higher unit cost than sequenced letters and flats."

Q Okay. So that's the point of all three observations. They're all intended to explain that last sentence. Okay.

Factor No. 1, "It seems plausible to me that an additional regular letter or flat is more likely than an additional sequenced letter or flat to cause additional access."

Here's my question. If you have an additional saturation mailing -- let's just deal with that regardless of whether it's DPS'd or cased or taken directly to the street, sequenced as you say.

If you have an additional saturation mailing it's going to take the coverage of the route up to over 90 percent or 100 percent, correct?

A Yes.

Q And so if you had the route without that saturation mailing it's going to have a lower coverage of addresses than that route if you do have the saturation mailing, correct?

A Yes, that's generally true. Yes.

Q So that the carriers are going to have to go to more locations for a saturation mailing. Isn't that true?

A Yes, but the point here is that sequenced mail only -- there's a strong correlation between people that already get other mail and sequenced mail.

Q Irrespective of that, I'm trying to get at what you say here.

Isn't it sort of counterintuitive that if on a given day you have 70 percent of the homes or addresses have to be delivered to and then you add on a saturation mailing and now you're delivering to 98 percent of the homes, you're delivering to homes that did not have a mailing without the saturation mailing, correct?

A Under your scenario, yes, but the point here is that sequenced mail, because it's related to income and other things, goes to people that are already getting mail anyway, so it's unlikely -- I mean,

coverage is very high as it is. It's not 70 percent, you know.

Maybe on some routes, but those routes wouldn't be that likely to get a sequenced mailing, so the thinking there is that people that are already getting mail are more likely to get a sequenced letter than people that aren't.

Q Well, that's certainly true in the selection of the zip code that they're sending the saturation letters to, correct?

A Right.

Q Let's pick a number. Let's just say in this hypothetical that without the saturation mailing you're delivering to 85 percent of the addresses, and with the saturation mailing you're delivering to 98 percent of the addresses.

Doesn't that mean that there are going to be many addresses that only get the saturation mailing?

A Under your hypothetical that's true, but the nature of saturation mail is that it goes, as this response says on I think page 2 there -- it says, "In other words, on a nationwide basis many more stops are likely to receive a regular letter than are likely to receive a sequenced letter."

This suggests that it is more likely that a

regular letter, as compared to a sequenced letter, would be delivered by itself.

Q If you're looking at a national basis you can make observations, but it seems to me your reason is not logically linked to your conclusion.

You've admitted in this hypothetical 85 percent of the delivery stops you stop at if you don't have the sequenced mailing. If you do have the sequenced mailing, you have to go to 98 percent. That's 13 percent more stops because of the sequenced mail or saturation mail.

Now, if the saturation mailer had the income or demographics of that route in mind it seems to me quite a different issue than the fact that we're causing a carrier to stop at more places than he otherwise would have stopped just because the saturation mail was there.

A Again, the point I'm trying to make there is that sequenced mail goes to high coverage zip codes, zip codes maybe 97 or 98 percent, so maybe there is an additional access from the sequence mail.

Q Maybe there is?

A There could be.

Q Yes.

A All I said in here, I didn't say there

isn't. I said it's more likely that a regular letter gives an additional access because that regular letter is going to go to a route or zip that has a coverage of 75 or 80 percent.

That's all this response is saying is that it's more likely that a regular letter would cause an additional access.

Q Okay. Are you saying that mailers who use saturation mail are more likely to be concerned about the demographics of the recipient than people who use standard regular mail, for example?

I mean, don't people who use standard regular look at income and how many credit cards people have and their education and their propensity to buy out of catalogs? I mean, aren't all those things factors that regular mailers who use non-sequenced mail look at just as much as sequenced mailers?

A My understanding is there's a strong link between income and volume of mail. You're kind of mixing up the terms here.

I mean, saturation mail can either be sequenced or not sequenced, okay? If it's not sequenced then it's in with all the other letters, okay, or flats.

That's kind of what I was saying in Valpak-10. It's worked in with all those, some which would be first class, which may not be as related to income as standard or things like that. It's not to say that other classes of mail don't consider those factors.

Q And in fact if you had a person who was sending non-saturation mail, an advertiser, and maybe they were responding to a lower price or they see some opportunity to mail and they choose to mail, isn't it likely that the people they're going to mail to are already getting mail?

A Well, in your scenario there, there would be a regularly delivered piece.

Like I said in Valpak-10, the figures there in the table reflect the average volume variable cost across all regularly delivered pieces and sequenced pieces in the table.

So it is true in that case, but there's also maybe some other letters that it's an average over all the classes of mail. First class might not be as dependent on income, for instance.

Q Have you ever heard it discussed that people who get mail tend to get more mailers when mailers mail more; that the same people get sent the mail?

A Yes.

Q And that would be true primarily for non-saturation mail, correct?

A I don't know if I've never heard it distinguished between those two.

Q But whoever is getting the mail tends to get the additional increment of mail. Isn't that true? I mean, you don't point that out in your response.

A I thought that was the point. The people that are going to get the sequenced mail are already getting the mail.

Q Well, you pointed that out for saturation mail, but not for people who do non-saturation mail. I'm just wondering. Isn't that just as likely to be true?

A That what is likely to be true?

Q That a person who is receiving mail already is going to get the incrementally additional piece of mail.

You know, we're talking about the reasonableness of conclusions that say that the cost of handling these regular letters and flats is significantly higher -- I'll use the word significantly; you don't have to agree to it -- than the cost of sequenced letter and flats.

Here we're talking about the reasonableness, and you're trying to explain it. You're trying to say that is reasonable because mailers who send saturation mail, they look at the recipients as to their demographics, and those people are already getting mail.

I'm saying to you isn't that true about people who send non-sequenced mail as well?

A It's plausible. I guess I don't think it's true to the same extent.

Q Wouldn't it be more true with those, if you have an opinion, or do you think it's hard to tell?

A No, I wouldn't say it's more true.

Q Okay. If you were to follow the carrier around and you were to look at them as they attempted to put mail in a receptacle and they had one piece of mail, would that one piece of mail tend to be a saturation mailing or non-saturation mailing?

A Well, going back to 11(j) there, let me just read it. Because an additional regular letter is more likely to cause an additional access, I would say it's more likely to be a non-sequenced piece.

Q I'm trying to get at the basis. I'm sorry. What were you referencing?

A 11(j)(2), the third line, the plausible to

cause an additional access, so if you just have one I think it's more likely, and I say that a couple times that it's more likely that that would be a regular letter rather than the sequenced letter.

Q If, as we discussed before, there was coverage -- I think you said maybe it's 95 percent or something like that -- without the saturation mailing and it goes up to 98 percent with it, for those three percent would you at least concede that the only mail they're getting on that given day in my hypothetical is a saturation piece?

A Again, saturation pieces don't have to go to every stop either. They only have to go to 90 percent of the stops.

Q Well, I would have used 100 percent if I had --

A I mean, it's certainly plausible that the coverage can go up, but the point of this response is that it's more likely to go up for other letters rather than sequenced letters.

Q In your third reason for reasonableness you talk about newer residential developments and people of higher income, correct?

A Yes.

Q Are you saying that mailers who send letters

out about credit cards or mutual funds or mortgages are not as likely to be mailing to people because of their demographics as saturation mailers?

A I don't think that characterizes my response. It's just that it talks about a reasonable conclusion that an additional regular letter or flat is more likely to cause an additional access given that income and advertising mail are positively correlated.

Q And the advertising mail that's positively correlated is both saturation and non-saturation?

A Yes.

Q Could you look at 26, please? You respond to our (b) through (d) together. Do you see that?

A Yes.

Q At the end of your response do you see where it says, "Since..." five lines up from the bottom?

A Yes.

Q "Since ECR saturation letter and flat costs incurred within delivery sections of letter routes account for such a large portion of the total street time cost, I view the unit cost provided in my revised response as reasonable for the same reasons as..." such and such, correct?

A Yes.

Q Okay. Can you tell me what relevance it is that these costs are a large portion of the total street time costs, what relevance that is to whether the costs are reasonable?

A Well, let me review the question.

(Pause.)

A Okay. In the question you give me various unit costs and ratios, and then you ask me are they reasonable, these ratios, okay?

I guess what I'm saying there is yes, they're reasonable, and one of the reasons I'm using that is because they're a large subset of the total. You know, if I think 100 percent of the total costs are reasonable I think a large subset are reasonable, a large subset of those.

Q Okay. Your response here doesn't address ratios being reasonable, but unit costs, correct? You say, "I view the unit costs provided in my revised response as reasonable."

A Right.

Q And one of the reasons for that is that ECR saturation letter and flat costs incurred account for a large portion of total street time cost.

I just don't understand what being a large portion of the total has to do with the reasonableness

of the unit cost. I mean, when we look at unit costs we're neutralizing for volume, aren't we?

A Right, but a category with small volume might have wide fluctuations. You could get something with small volume that due to statistical variation or something may not give you a reasonable --

Q That's your point then?

A Well, my point is that I think the total is reasonable, and saturation is a significant -- not significant, but it's certainly not a small category and so I view those as reasonable as well. A large contributor to the total.

Q But whether they're a large contributor to the total or not has nothing to do, does it, with whether the unit cost is reasonable?

A For the total?

Q No. We're looking at a unit cost. I mean, you can separately analyze a unit cost, correct, and then it factors out the fact that it may apply to a large volume or a small volume, right?

A Right, but for a small volume category it is possible to get an unreasonable unit cost I would say. I don't think that's true with saturation because there's enough volume of saturation that we can come up with reasonable cost estimates.

Q If your response had to do with the fact that if something was so tiny it could have lots of variation in it then I understand that response. I just didn't understand it without that clarification, okay?

A Yes.

Q Okay. For example, if you look at standard saturation, putting aside first class, if you look at the numbers, I believe that saturation volume is about 14 percent of standard. I mean, that's not a huge dominant portion. It's just not one percent.

A Right. I mean, I don't know. Are you talking about letters or flats?

Q Both.

A Total? Okay.

Q Yes. Let's see. Mr. Baker helped us save some time.

Let's look at your response to 22. There is a spreadsheet that's appended to your response where you correct our costs, correct?

A Yes.

Q All I have in front of me is the printout. I don't have the spreadsheet so I can't go over line numbers and such, but do you have the same thing I have in front of you?

A Yes.

Q Okay. If we go back to the definition --

MR. KOETTING: Mr. Olson, not to interrupt, but I hope you're looking at the revised spreadsheet. Revised August 10 it should say on the footer on the attachment in very small print, unfortunately.

MR. OLSON: Actually, I wasn't. Let me see if I can find that.

I think that eluded me, Mr. Koetting. You have everything. Thank you.

BY MR. OLSON:

Q It appears that the numbers that I'm going to ask the questions about did not change so that helps.

In a sentence could you just tell me what necessitated this amendment?

A It was you. It was an e-mail that --

Q I remember this. I'm sorry. That was the e-mail to Mr. Koetting. I apclogize. I just never saw the actual response filed. Now I remember it. Okay.

If we use the definition of the term regular that we had before at the beginning, it would be my understanding, and I ask you to confirm, that we're dealing with regular non-sequenced in the -- maybe you

can tell me.

Let me just tell you the lines I'm interested in. The second line on the printout is ECR non-saturation DPS letter, no DAL. If you go to the far right-hand column, the city delivery unit cost without piggyback is 2.41 cents, correct?

A Yes.

Q If you look in the next grid, ECR saturation DPS letter, non-sequenced, that's 2.18 cents, correct?

A Yes.

Q So it looks like both of these are DPS'd letters, and the first one is non-saturation. The second one is saturation.

A Non-saturation DPS, yes. Yes.

Q Okay. So it's basically a saturation mailing that's been taken to the plant and DPS'd while the other is a non-saturation mailing that's been DPS'd?

A Yes.

Q Okay. Now, can you explain the difference in those costs? In other words, when a carrier receives letters that have been DPS'd can he tell which ones were originally saturation letters and which ones were non-saturation?

A He could tell by the markings.

Q Well, if he looked at it. Would it functionally affect the way he handled the mail, the way he fingered the DPS'd and delivered it?

A My understanding would be no.

Q Do you know why those costs would be different?

A So you're comparing the 2.18 cents to the 2.41 cents?

Q Yes.

A Okay. Well, if you look about -- I don't know -- three columns to the left you can see some of the costs that we've been talking about a lot here.

The 1.81 cents is the same because they're both regular letters, so that's the same. The street costs are very, very close, 2.07 cents for non-saturation, 2.04 cents for the saturation piece, so it brings it to the office. The office costs are different.

Now, the office costs come from IOCS, and those are input so I don't know. The fact that it's DPS'd or not come from the carrier systems, city in this case.

Q But as an observer of delivery costs who comments on anomalous observations, is this one of them? Would you expect them to be the same?

A Is a .23 cent difference anomalous, the difference between 2.41 and 2.18?

Q If you're paying the postage it is.

A I mean, the difference seems to be there in the direct non-casing costs, unit costs, between .21 cents and .06 cents.

You know, I don't know. I mean, that's an input from IOCS. I didn't question those numbers at that level of detail.

Q Okay. Then also if you would look at two more numbers with me? The very first line on the chart is for ECR non-saturation non-DPS letter, no DAL, and that's 7.13 cents, correct?

A Yes.

Q That's basically a cased letter?

A Yes.

Q And then if we look at cased flats I guess we go down to the fourth grouping there, ECR saturation flat addressed cased, correct?

A Yes.

Q And that's 6.22 cents, correct?

A Yes.

Q And that flat is an addressed flat, right? That's not with a DAL?

A Right. Yes.

Q Okay. So you've got an addressed cased letter of 7.13 cents and an addressed cased flat at 6.22 cents. Could you explain why you think the cased letter costs more than the cased flat?

A Well, you can identify where the difference is. You know, it's in the direct casing cost, 3.71 cents for letters, in this case the non-saturation non-DPS letter, and 2.98 cents for the saturation flat.

Again, I didn't question that number. It's an input from IOCS. I mean, one could speculate that the non-saturation piece is not in order. There could be something there that could account for a little bit higher casing cost where the flat you could go in order. That's really just speculation. That's an input from IOCS there.

Q So you don't know why it would --

A No, I don't.

Q -- cost more to case a letter than a flat?

A No, I don't.

MR. OLSON: Mr. Chairman, I think that is all I have. I thank you.

Thank you, Mr. Kelley.

CHAIRMAN OMAS: Thank you, Mr. Olson.

Is there any follow-up cross-examination for

Witness Kelley?

(No response.)

CHAIRMAN OMAS: Any questions from the bench?

(No response.)

CHAIRMAN OMAS: Mr. Koetting, would you like some time with your witness?

MR. KOETTING: Yes, Mr. Chairman. I'd ask for 10 minutes at this time, please.

CHAIRMAN OMAS: Sure. We'll come back at 11:20. Thank you very much.

(Whereupon, a short recess was taken.)

CHAIRMAN OMAS: Mr. Koetting?

MR. KOETTING: Thank you, Mr. Chairman. We do have one brief line to touch on.

REDIRECT EXAMINATION

BY MR. KOETTING:

Q Mr. Kelley, you began your discussion this morning with Mr. McLaughlin, and you were discussing specifically your response to POIR No. 8, Question 14.

As I recall your conversation with Mr. McLaughlin, you were focusing in that exchange on the effect of city carrier costs with respect to a reduction in number of DALs. Is that your recollection of that exchange?

A Yes.

Q Later Mr. Baker returned to the same topic. In your discussion with Mr. Baker was it your intention to likewise focus on the effect on city carrier costs of reduction in the number of DALs?

A Yes.

MR. KOETTING: That's all we have, Mr. Chairman.

CHAIRMAN OMAS: Thank you, Mr. Koetting.

Mr. Kelley, that completes your testimony here today. We appreciate your contribution to our record. You are now excused. Thank you very much.

THE WITNESS: Thank you.

(Witness excused.)

CHAIRMAN OMAS: This concludes today's hearing. No hearings are scheduled for Monday.

We will reconvene Tuesday morning at 9:30 a.m. when we will receive testimony from Postal Service Witnesses Riddle, Stevens, Talmo, Harahush, Coombs and Bradley.

Thank you very much. Have a great weekend. We'll see you Tuesday.

(Whereupon, at 11:25 a.m., the hearing in the above-entitled matter was adjourned, to reconvene at 9:30 a.m. on Tuesday, August 22, 2006.)

REPORTER'S CERTIFICATE

DOCKET NO.: R2006-1

CASE TITLE: Postal Rate and Fee Changes

HEARING DATE: 8/18/06

LOCATION: Washington DC

I hereby certify that the proceedings and evidence are contained fully and accurately on the tapes and notes reported by me at the hearing in the above case before the Postal Rate Commission

Date: 8/18/06

Bernadette J. Herbert

Official Reporter
Heritage Reporting Corporation
Suite 600
1220 L Street, N.W.
Washington, D.C. 20005-4018